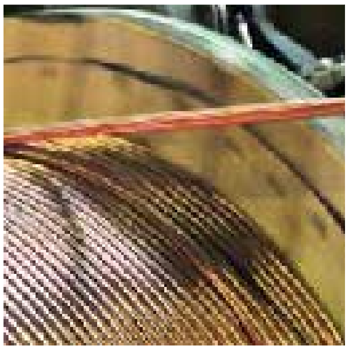
South Ocean HOLDINGS



# 2010
Annual Report

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Annual Report

# Company profile

South Ocean Holdings Limited (South Ocean) is an investment holding company that is listed on the main board of the Johannesburg Stock Exchange. The group manufactures low voltage electrical cables and imports and distributes light fittings, lamps and electrical accessories in Southern Africa.

Its products are sold to wholesalers and distributors who supply mainly the building and construction industry.

South Ocean HOLDINGS

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# Group at a glance

## Subsidiary financial contribution

| Subsidiary | Revenue | Contribution to group revenue | EBITDA |
|---|---|---|---|
| SOEW | R777,1 million | 68,3% | R56,8 million |
| Radiant | R361,0 million | 31,7% | R36,8 million |
| Radiant Malta | – | – | – |
| Anchor Park* | – | * | – |

**Property investment revenue, inter-group*

## South Ocean has three operating subsidiary companies and a property holding subsidiary

### South Ocean Electric Wire Company (SOEW)

South Ocean Electric Wire Company (Proprietary) Limited is a manufacturer and distributor of low voltage electric cables. SOEW sells to wholesalers and distributors and employs 273 people. It is based in Alrode, south of Johannesburg. SOEW products are 100% locally manufactured and the company supports local raw material suppliers.

### Radiant Group (Radiant)

Radiant Group (Proprietary) Limited is an importer and distributor of light fittings, lamp and electrical accessories to wholesalers, distributors and lighting consultants. The majority of its products are imported and distributed to customers in Southern Africa. It operates from offices, warehouses and showrooms located in Johannesburg, Cape Town and Durban and employs 358 people. Radiant is a major supplier in the light fittings market and is a significant supplier of lamps. It is also growing its market share in the electrical accessories market.

### Radiant Malta Renewable Energy Corporation (Radiant Malta)

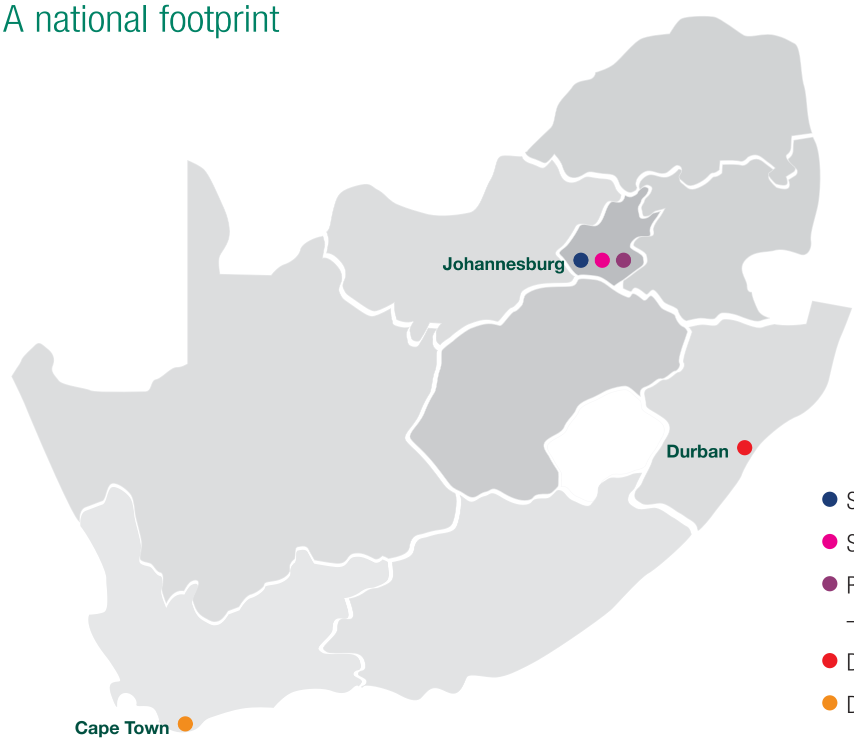
Radiant Malta Renewable Energy Corporation (Proprietary) Limited is an importer and distributor of solar energy panels.

### Anchor Park Investments (Anchor Park)

Anchor Park Investments 48 (Proprietary) Limited houses the property assets of the group, consisting of the SOEW Alrode plant and Radiant's warehouses, offices and showrooms in Johannesburg and Cape Town as well the new South Ocean head office located in Alrode.

# Group at a glance

## A national footprint




- South Ocean head office, Alrode, Gauteng
- SOEW factory in Alrode, Gauteng
- Radiant head office and distribution warehouse – Wynberg, Gauteng
- Distribution centre in Durban
- Distribution centre in Cape Town

## Vision and mission

South Ocean aims to be a key player in the electric wire manufacturing, light fittings, lamps and electrical accessories markets recognised by our customers for good quality products and service excellence.

## Values

- Maintain exceptional customer relationships;
- Show concern for people and support our colleagues and encourage growth and development;
- Promote open and honest debate as the appropriate process to test decisions, seek consensus and accept responsibility;
- Meet customers' short- and long-term requirements;
- Monitor market changes and take subsequent action to the benefit of our customers;
- Practise manufacturing methods that minimise any potential harmful impact on the environment;
- Involve, develop and advance all our employees to their full potential; and
- Value the health and safety of our employees and create a safe environment to operate in.

## Our strategy

South Ocean's strategy is to deliver sustainable returns for all our stakeholders. We aim to deliver superior investment returns for our shareholders, excellent service to our customers and to maintain a reputation of the preferred provider of electrical wire, light fittings, lamps and accessories. Underpinning this is commitment to good corporate governance, a responsible approach to risk management and dedication to taking care of our employees. Overall, South Ocean aims to make a positive contribution to the environment and communities in which we operate.

## Our top three strategic imperatives

- **Ensuring sustainable returns for our stakeholders**

  We are focused on managing our businesses at a high level of efficiency so as to ensure that we generate sustainable returns over the longer term.
- **To be a key player in the cable manufacturing, light fittings, lamps and electrical accessories markets**

  South Ocean is focused on gaining recognition in our chosen areas of operation by increasing our market share through organic growth. Where possible, we will also look for opportunities for growth through acquisitions or any other means available to us.
- **Developing globally competitive businesses**

  In our quest to compete in the rest of Africa, we are re-organising our businesses to ensure that we are competitive within all our target markets.

## Performance highlights

The fourth annual report for South Ocean as a listed company highlights a number of achievements during the past year including:

- Commencing Phase 2 construction of a 10 000m$^2$ expansion at SOEW's Alrode production facility;
- Opening a Radiant distribution centre in KwaZulu Natal;
- Increasing SOEW's revenue by 31,3% to R777,1 million;
- Decreasing group operating expenses by 4,6%; and
- Increasing South Ocean's footprint nationally and internationally.

## Investment case

- South Ocean has a credible management team with extensive experience;
- Two strong operational businesses with solid track records;
- Strategic shareholder, Hong-Tai Electric Industrial Company Limited (Hong-Tai) is listed on the Taiwanese Stock Exchange and provides SOEW with know-how and technical support;
- Strong, established relationships with key suppliers;
- Good corporate citizen with strong corporate governance principles;
- Large and established customer base;
- Solid relationships with financial institutions; and
- Creates value for shareholders.

## Principal risks and mitigation

The table below describes the most significant operational and strategic risks we face in our business model and how we address these.

| Risks | Risk management |
|---|---|
| **Strategic** | |
| New products and markets | Thorough research, development and testing is undertaken before new products are launched. |
| Expansion | Extensive research is conducted before expansion opportunities are pursued. |
| **Operational** | |
| Stock availability | Adequate planning and inventory management systems are in place to manage stock availability. |
| Quality | Compliance with various quality standards are ensured. |
| Fraud prevention | Whistle-blowing programmes are in place. |
| Copper supply | Copper is sourced from more than one supplier. |

# Group at a glance

## Financial statistics

| | 2010 | 2009 |
|---|---|---|
| Market capitalisation (Rm) | **367,5** | 234,6 |
| Year-end share price (JSE) (cents) | **235** | 150 |
| Total assets (Rm) | **969,6** | 924,2 |
| Total interest bearing debt (Rm) | **107,0** | 138,4 |
| Net interest expense (Rm) | **(11,8)** | (15,7) |
| Earnings before interest, tax, depreciation and amortisation (EBITDA) (Rm) | **106,9** | 78,3 |
| Number of employees | **641** | 651 |
| Return on average equity (ROE) (%) p.a. | **7,3** | 4,7 |
| Return on average assets (%) p.a. | **5,5** | 3,4 |
| Earnings yield (%) | **14,3** | 13,5 |
| Dividend yield (%) | **–** | 2 |
| Gearing (%) | **14,5** | 20.1 |

## Summary of financial performance

| | % change | 2010 | 2009 | 2008 | 2007 |
|---|---|---|---|---|---|
| Net revenue (Rm) | 18,8 | **1 138,1** | 958,0 | 1 136,6 | 852,6 |
| Operating profit (Rm) | 47,0 | **88,5** | 60,2 | 132,7 | 185,4 |
| Net profit after tax (Rm) | 65,6 | **5 2,5** | 31,7 | 61,1 | 125,8 |
| Headline earnings per share (cents) | 38,6 | **33,4** | 24,1 | 65,7 | 96,6 |
| Dividend per share (cents)* | (100) | **–** | 3,0 | 7,0 | 26,0 |
| Total assets (Rm) | 4,9 | **969,6** | 924,2 | 987,4 | 937,0 |
| Net cash and cash equivalents (Rm) | (40,8) | **34,8** | 58,8 | (6,2) | 45,3 |
| Shareholders' equity (Rm) | 6,8 | **736,9** | 689,8 | 658,1 | 639,2 |

**includes dividends declared after year-end relating to the financial year under review*

# Financial highlights

Revenue **UP**
**18,8%** to **R1 138,1 million**

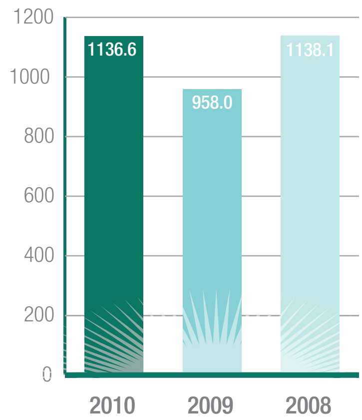
Net asset value per share **UP**
**6,8%** to **471,2 cents**

Gross profit **UP**
by **12,1%** to **R237,8 million**

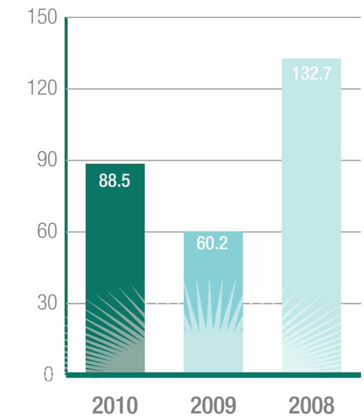
Headline earnings per share **UP**
**38,6%** to **33,4 cents**

Earnings per share **UP**
by **66,3%** to **33,6 cents**

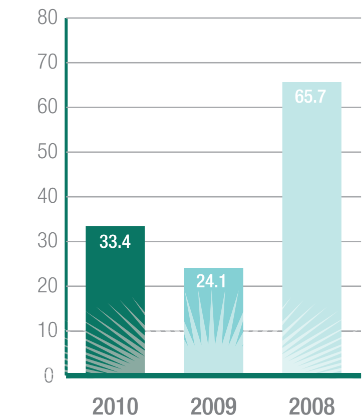
## Revenue
R'000




## Operating profit
R'000




## Headline earnings
cents



# Chairman's report

**Ethan Dube**
*Chairman*

*Both Radiant and SOEW are well positioned to benefit from the opportunities presented by improving economic fundamentals.*

South Ocean experienced a favourable trading year compared to the prior year, although conditions remained challenging. The group continued its focus on optimisation and improving productivity across its operations, as well as expanding its product range and diversifying into new target markets. As a result, performance improved significantly, with the continued gain in market share and improvement of margins.

South Ocean used the period following the economic crisis to go back to basics and ensure that the group was optimally structured and competitive. This strategy has reaped rewards and it is now well positioned to take advantage of increased demand for its products as the economy begins improving.

As part of our strategic intent, much time was spent over the past year strengthening relationships with key stakeholders – including suppliers and customers – cementing our position as a significant player in the markets in which we operate. By building a strong, diversified business, we believe the group is well positioned to meet its aim of maximising returns for our shareholders and pursuing opportunities for growth into new markets.

## Market review

The 2010 financial year was characterised by a mixed economic picture. The improvement in consumer spending was offset by the continued slowdown in the construction sector.

Government continues to lag on the implementation of its infrastructure development programme and, combined with reluctance from the market following the recession to invest in capital intensive projects, major infrastructure projects were put on hold. However, a number of large projects are expected to be implemented towards the end of 2011 and into 2012. The outlook for consumer spending in the year ahead remains positive, although there are concerns about the high level of household debt especially as a rise in the interest rate cycle approaches. Both Radiant and SOEW are well positioned to benefit from the opportunities presented by improving economic fundamentals.

## Executive and director changes

There were a number of important management changes undertaken during the year which has resulted in a more efficient, streamlined reporting structure.

Paul Ferreira was appointed Chief Operating Officer for the group as well as alternate executive director to Edward Pan in August 2010.

Melanie Chong and Debbie Tam were appointed as independent non-executive directors to the South Ocean board during 2010. They are both members of the Audit and Risk Management Committee, offering experience across different industries and we look forward to their contribution to South Ocean.

Although our staff complement decreased from 651 to 641, we continue to attract skilled and experienced personnel to our company. The increasing number of our staff qualifying for 15 and 20 year service certificates demonstrates South Ocean's reputation as a preferred employer.

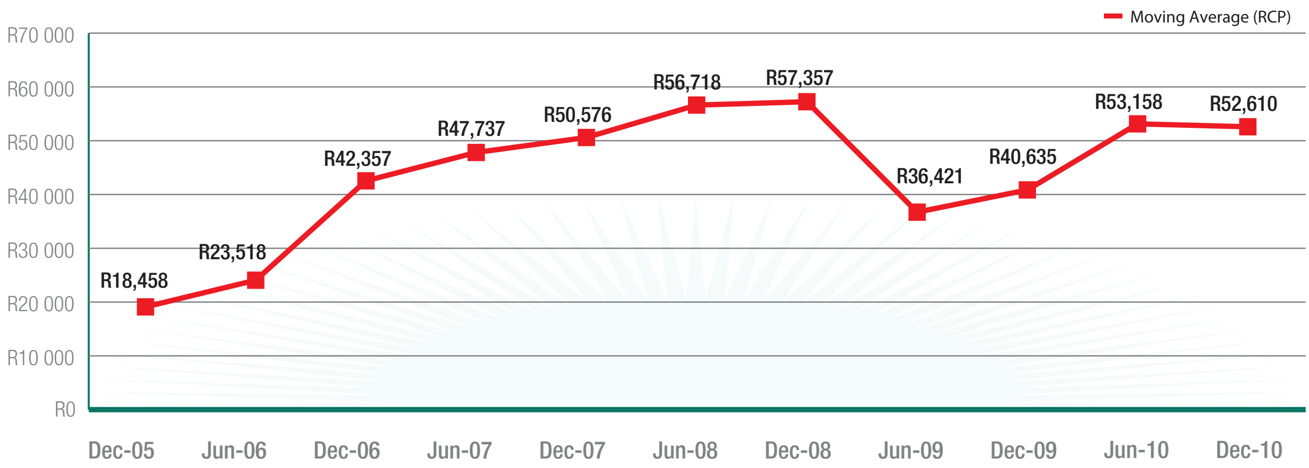
## Sustainability

South Ocean continues to work towards implementing the highest level of corporate governance and the group has begun the process of ensuring it complies the King III Code of Good Corporate Governance. The streamlining of the management structure will result in clearer reporting lines and improved communication.

We also continue to explore opportunities to enhance the transformation of the company at all levels, with a particular focus on the training and development of our people. We also believe that skills transfer can help to grow the economy and help create jobs and a major thrust for the group is building a competitive and vibrant, local manufacturing sector.

South Ocean continues to earmark funds for corporate social investment initiatives in communities either where we operate or where our employees live.

## Moving Average (RCP)




## Stakeholder management

We endeavour to provide transparent, simple and clear communication to our stakeholders and actively engage them on material matters affecting the group. A more detailed stakeholder engagement map can be found on page 21.

## Prospects

South Ocean's focus on operational efficiency in the difficult trading environment will stand the company in good stead as the economic cycle improves.

Although copper prices peaked at US$9 409/ton (R64 085), the high prices were out of sync with actual market demand as major consumers such as the Republic of China suffered a slow-down in physical demand. The price of copper remains high, but is expected to soften in the near future and with expectations of a weakened local currency, the group is focused on improved operational efficiencies to ensure that margins remain firm.

There are indications of sustained improvements in the country's growth prospects, evidenced by GDP accelerating to 4,4% in the last quarter of 2010.

## Appreciation

I would like to extend my appreciation to all members of the board for their contribution and the tireless efforts of the entire South Ocean team during another challenging year. My thanks also to all our stakeholders who supported us during this time. We are confident that we have the right strategies to deliver sustainable returns as the South Ocean group builds from a solid foundation.

**Ethan Dube**
*Chairman*

# Chief Executive Officer's report

**Edward Pan**
*Group Chief Executive Officer*

> *"We believe the strategic decisions implemented during the past two years will provide a solid platform for future growth."*

## Overview

After implementing strategies and structures during the recession to make South Ocean a more resilient and competitive company, the group enjoyed some benefits during the slow upturn in the South African economy during 2010. A healthy rebound in sales resulted in an 18,8% increase in revenues and combined with a dedicated and continued effort to drive down costs, the group was able to increase operating profits by 47,1%.

We continue to implement a disciplined approach to achieving the goals we have set, including sustainable growth and returns for shareholders. Both operating subsidiaries have put in place strategies to extract operational efficiencies, continually improve customer service, create new products to meet customers' changing needs, leverage human resources and establish processes to continually improve quality.

Management changes at Radiant have created a more streamlined business, contributing to an overall improvement in operating margins. Meanwhile at SOEW, a relentless focus on quality and productivity resulted in improved operational efficiencies. From a sales and marketing perspective, closer alignment between the Radiant and SOEW brands has helped create a strong foundation. We believe the strategic decisions implemented during the past two years will provide a solid platform for future growth.

## Financial overview

At group level, South Ocean's results improved mainly due to improved performance at SOEW year-on-year. There was a marginal improvement in the trading volumes of electric wire during the year, together with a 29,5% increase in the moving average Rand Copper Price (RCP), which had a positive impact on the group's results.

## Earnings

The group's profit after tax increased by 65,8% to R52,5 million (2009: R31,7 million). Gross profit increased by 12,1% to R237,8 million (2009: R212,2 million) and operating profit increased by 47,1% to R88,5 million (2009: R60,2 million).

Other operating income of R7,3 million (2009: R12,1 million) was R4,8 million lower than the amount reported in 2009 mainly due to foreign exchange gains of R4,4 million compared to the R10,5 million reported in the prior year.

Group management continued to place emphasis on finding value within the operations of the companies. This resulted in cost savings displayed in the 4,6% reduction in the group's operating expenses, achieved despite the increased activity at SOEW. The combined group operating expenses were R156,7 million compared to the prior year's R164,2 million. Further details are provided within the operating division overviews on pages 12 to 19.

The group benefited from the reduction in interest rates with finance costs reducing by 27,0% to R13,5 million (2009: R18,5 million). A reduced level of interest bearing borrowings was also instrumental in the lower reported finance costs.

The effective tax rate for 2010 was 31,6% compared to the prior year of 28,8%. The tax rate was affected by a deferred tax asset relating to tax losses in one of the subsidiaries not being provided for.

## Cash flow and cash position

Cash generated by the group during the year was R47,6 million, which was R67,4 million lower than the R115,0 million generated during the prior year. The main contributor to this variance was the investments in inventory and accounts receivable, as a result of improved trading conditions and increased turnover at the end of the year compared to the prior year. An amount of R19,5 million was spent on capital expenditure relating to offices and a factory building, of which the financing loan will be received in the 2011 financial year. The group further reduced its debt position by R31,3 million (2009: R36,9 million).

## Operational overview

### SOEW

The group's results improved overall mainly due to enhanced performance at SOEW year-on-year. Despite a 29,5% increase in the moving average Rand Copper Price (RCP) from the previous year, there was an improvement in the trading volumes of electric wire and this had a positive impact on the subsidiary's performance.

Copper is the biggest cost contributor at about 75% of total costs at SOEW. The domestic copper price is set on an import parity basis by the company's suppliers and prices are therefore a function of international commodity price trends. During 2010 the copper price reached a global high with the base metal fetching an annual average price of US$7 534/ton (R54 959), the highest in the last few years. This pricing premium was offset by lower demand and strengthening Rand which added pressure to the SOEW business. Year-on-year SOEW's was still able to deliver a better than expected operating margin.

SOEW's customers continued to trade cautiously due to the volatility in the RCP and uncertain demand in the local market. In these challenging market conditions and a competitive environment, the company continued to focus on cost containment and management of working capital. The reduction in its net cash position was due to an increase in working capital resulting from the increased RCP and increase in accounts receivable.

SOEW's revenue increased by 31,3% to R777,1 million (2009: R591,9 million) on the back of a 29,5% higher moving average RCP and increase in volumes. The increased volumes were mainly achieved through additional capacity added in the prior year as well as improved capacity utilisation.

Operating expenses only increased by 3,2% and this sustainable containment of expenses set a good foundation to take advantage of trading improvements. The net result was a significant improvement in the operating profit of SOEW from a very difficult prior year.

### Radiant

Radiant continued to be affected by the muted recovery in the residential property market and the continued pressure on consumer spending levels. It sought to expand into new markets, such as mining and commercial property, to help offset this impact.

Radiant made key structural changes during the year, with the business now able to focus on extracting efficiencies across its operations and taking advantage of new growth opportunities. Radiant's revenue decreased by 1,4% to R361,0 million (2009: R366,0 million) with gross profits remaining fairly static. Notwithstanding the decrease in revenue, a reduction of R5,4 million in foreign exchange gains and inflationary increases in expenditure, net income before tax increased by R0,2 million.

Other operating income of R4,4 million (2009: R9,8 million) was negatively affected by the profit on foreign exchange which reduced compared to the prior year. Operating expenditure reduced by R5,0 million while finance costs reduced to R3,7 million (2009: R7,5 million) as a result of a decrease in interest rates, effective cash management and a reduction of interest bearing borrowings.

Net cash on hand of R13,9 million at year end reduced by R20,3 million when compared to prior year. The reduction in cash on hand was as a result of the repayment of interest bearing borrowings and an increase in inventories of R31,2 million.

### Anchor Park

Anchor Park owns the properties that are leased by the operating subsidiaries. The increase in the adjusted EBITDA at Anchor Park was due to a loss on the sale of buildings recorded in the prior year. Interest bearing borrowings and finance costs reduced as a result of lower interest rates. The increase in the segment assets is as a result of the factory being built at Alrode to house a new SOEW plant as well as the South Ocean's head office. The group spent R19,5 million on this project during the year.

## Management changes

The new structure at Radiant sees the company headed by Gerard Pillay (Managing Director), and supported by Chris Calitz (Divisional Director: Product Development); Anthony Lloyd (Divisional Director: Sales & Marketing); and Farhad Ally (General Manager: Finance and IT). All bring extensive experience in the lighting industry to Radiant's executive team.

## Prospects

South Ocean will continue to harness the talents of its executive teams and employees to ensure our businesses are internationally competitive, add value and are efficient. Our operations have been streamlined, structures and reporting lines simplified and a solid foundation for growth has been created. Undertaking this process following the recession has made us more nimble and puts us in a better position to respond quicker to changes in our operating environment.

During the next financial year, SOEW's new plant at Alrode will become operational, increasing capacity and leading to increased supply chain efficiencies. This will propel our business into new markets and product categories. At Radiant, expansion of our distribution footprint across South Africa and outside our borders into Africa will enable us to service new customers and grow into new markets as well as take advantage of the associated efficiencies in our distribution network.

Although there are signs of improvement in the economy, trading conditions are expected to remain challenging for some time. Our operating units will focus on extracting value from their operations to ensure the group continues to increase value for shareholders on a sustainable basis.

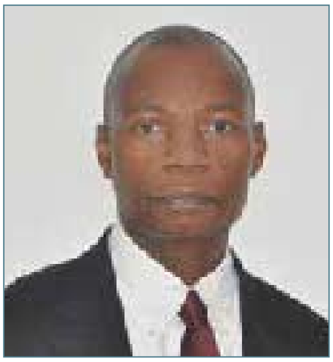
## Appreciation

I would like to express my gratitude to the board of directors for their input and guidance over the past financial year. Their advice and insights have been valuable in helping the group steer through these difficult times. Many thanks also to the outgoing members of the senior management team at Radiant for their contribution over the years.

It is through the hard work and perseverance of the executive teams and dedicated work of every employee of the South Ocean group that we have been able to unlock potential and grow our business in this market. Their commitment to reaching the targets set and helping create a more efficient South Ocean group is appreciated.

**Edward Pan**
*Group Chief Executive Officer*

# Board of directors



**Ethan Gilbert Dube (51),** MSc (Statistics)

Independent Non-Executive Chairman

Board Committees: Audit and Risk Management; Remuneration

Ethan was appointed as a director of South Ocean in February 2007 and Chairman in 2009. He has over 15 years' experience in various aspects of the financial services industry. He is Chief Executive Officer of Vunani Limited (previously African Harvest Capital), a position he has held since the management buy-out in September 2002 which he led. He has also worked as an equity analyst and portfolio manager at various asset managers and in corporate finance and central banking.

**Edward Hwei-Ti Pan (63),** BSc (Eng) (Tri-State, Indiana)

Chief Executive Officer

Edward founded South Ocean in 1989 in King Williams Town and has been Chief Executive Officer since then. After graduating, he served as plant manager and MD of businesses in Taiwan before settling in South Africa in 1982. In South Africa he founded Dimbaza Fibre and then Cosmic Package, a manufacturer of polypropylene woven bags. He was Chairman of Cosmic Package until 1998 when he resigned and sold his shareholding. Both of these companies continue to be successful businesses today.

Edward was recognised by Asia Inc. Magazine in Hong Kong in 1995 as a successful Taiwanese businessman in Africa and he was awarded the 4th Annual Outstanding Overseas Taiwanese for Small and Medium Enterprises by the Ministry of Economic Affairs in Taiwan in 2002. He was a past Chairman of the Johannesburg Taiwanese Chamber of Commerce.

**Paulo (Paul) José Monteiro Ferreira (41)**

Alternate Executive Director

Chief Operating Officer

Paul was appointed Chief Operating Officer of South Ocean Holdings in August 2010. Paul joined SOEW in 1999 as Marketing Operations Manager and was appointed Marketing Director in February 2007 and Chief Executive Officer of SOEW in August 2008. He has pursued a career in marketing electrical wires and cable for the last 20 years and is a member of South African Cable Association.

**Jacobus (Koos) Petrus Bekker (54),** BCom, BCom (Hons), CA(SA)

Chief Financial Officer

Koos has been Financial Director of South Ocean since February 2007. He joined SOEW in July 2001 as Administration and Financial Operational Manager. Koos entered the accounting profession in 1978 and was appointed audit partner in 1986. He served as an audit partner with a medium-sized firm and also one of the big five firms during his career as a partner. He left the auditing profession in 1997 and opened a stock broking firm in the Eastern Cape. He qualified as a stock broker in 1999 and was a member of the South African Institute of Stock Brokers until 2001. Koos is a member of the South African Institute of Chartered Accountants.

**Chi-Ying (Joe) Wu (46),** BSc Business Administration (Montana, USA)

Non-Executive Director

Board Committee: Audit and Risk Management

Joe was appointed as a non-executive director of SOEW in 2004 and of South Ocean in January 2007. He has been both the Financial Officer and Executive Officer of Hong-Tai in Taiwan since April 2008. He has a wide range of experience in accounting, financial, administration and internal control systems. He joined Hong-Tai in 1996, became the assistant manager of the accounting department of Hong-Tai in 2002 and was appointed manager of the internal audit department in 2005.

**Hung-Lung (Eric) Li (59),** MSc, Industrial & System Engineering (San Jose State University, USA)

Non-Executive Director

Board Committee: Remuneration

Eric was appointed to the South Ocean board in March 2008 as an alternate director to Choice Pan and a full non-executive director in August 2009. Eric is the Vice President of Telecommunication Cable business at Hong-Tai in Taiwan. Eric joined Hong-Tai in 2004 as the Vice President, Information Technology Center before he was transferred to Telecommunication Cable Business. He was previously involved in the software engineering and semiconductor manufacturing business in Silicon Valley in the US for more than 20 years. Eric has held positions of General Manager at VLI Communications, Vice President at Everlasting Software Company and Software Engineering Director at Sun Microsystems.

**Kwok Huen (Henry) Pon (74),** BCom (Rand), CA(SA)

Independent Non-Executive Director

Board Committees: Audit and Risk Management (Chairman); Remuneration (Chairman)

Henry joined the board of South Ocean in November 2007 as an independent non-executive director. He has been in public practice as a Chartered Accountant since 1962 and is still highly active in the accounting and auditing field. During his many years of practice, Henry has had exposure to the different fields of commerce and industry and has gained extensive experience in finance, tax, auditing, accounting and management and has throughout his career audited public companies at the highest level. He is a member of the South African Institute of Chartered Accountants.

**Chung-Hsiang (Choice) Pan (53),** BSc Public Finance (Feng Chia, Taiwan)

Alternate Non-Executive Director

Choice was appointed as a non-executive director of SOEW in 2002 and of South Ocean in January 2007. He resigned as a non-executive director in August 2009 and was appointed an alternate to Mr Eric Li. He is the Senior President of Hong-Tai and has been an executive director of Hong-Tai since 1990. His experience covers a wide range of cable and electronic material manufacturing and marketing. He joined Hong-Tai in 1982 as chief of the power cable marketing department. Choice is also a director of United Electricity Industry Company and an executive director of the Taiwan Electric Wire & Cable Industrial Association.

**Melanie Chong (34),** BCom, BCom (Hons), CA(SA)

Independent Non-Executive Director

Board Committee: Audit and Risk Management

Melanie was appointed to the South Ocean board April 2010. Over the past ten years Melanie has worked predominantly in the financial services sector. She was the corporate governance officer at a Nasdaq listed company. She also started her own business and partnered with other owner-managed businesses in the consulting, accounting, luxury accessories and recruitment industries. Melanie is a member of the South African Institute of Chartered Accountants.

**Debbie Lau Tam (41),** BCom, BCom (Hons)

Independent Non-Executive Director

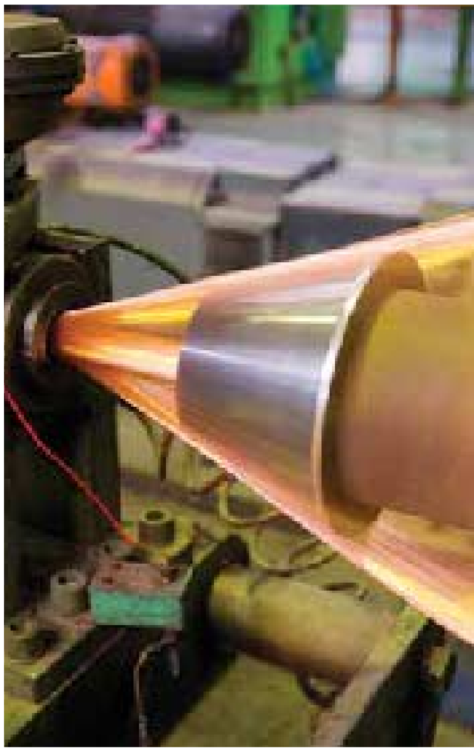
Board Committee: Audit and Risk Management

Debbie was appointed as an independent non-executive director of South Ocean in November 2010. She has worked in the IT assembly and distribution industry for 20 years and was a financial manager for six years. Her experience covers finance, business analysis, logistics and service as well as operations management. She is currently the Chief Operating Officer at Mustek Limited since May 2007. Debbie is a member of the South African Institute of Chartered Accountants as an Associate General Accountant.

SOUTH OCEAN

ELECTRIC WIRE COMPANY (PTY) LTD


# Review of operations **SOEW**



## SOEW senior management

**Paul Ferreira (41)**
Chief Executive Officer, SOEW

Paul was appointed Group Chief Operating Officer of South Ocean Holdings in August 2010. Paul joined SOEW in 1999 as Marketing Operations Manager and was appointed Marketing Director in February 2007 and Chief Executive Officer of SOEW in August 2008. He has pursued a career in marketing electrical wires and cables for the last 20 years.

**Yasmin Mahomed (44)**
Executive Director: Sales & Marketing

Yasmin was appointed Sales Director of SOEW in March 2010. She joined SOEW in 2002 as a sales consultant. She was appointed Sales Manager in 2007 and had been in the cable industry for 16 years before joining SOEW. She started her working career in 1987 for a large cable manufacturer in South Africa.

**Johan Prinsloo (37)**
Divisional Director: Factory Operations

Johan was appointed Divisional Director of Factory Operations at SOEW in 2010. He joined SOEW in 1999 as an electrician. He was appointed Technical Manager in 2006 and Production Manager in 2009. He is a qualified Millwright by trade. Johan has 10 years' cable and technical experience.

**Dean Johnson (44)**
Divisional Director: Finance

Dean was appointed Divisional Director of Finance at SOEW in 2010. He joined SOEW in May 2009. After qualifying as a chartered accountant, Dean was appointed as Financial Manager for a manufacturing business in 1993 and was later appointed Financial Director of that group. He has also worked in the FMCG and IT industries. Dean is a member of the South African Institute of Chartered Accountants.

## SOEW's product range

**SOEW's product range consists of the following products:**

| | | |
|---|---|---|
| • Bare copper earth wire | • Flex power | • Low halogen (LH) armoured cable |
| • General purpose house wire | • Ripcord | • Flame retardant (ECC) armoured cable |
| • Flat twin and earth | • Mainscord | • Armoured cable (FR) 1.8/3.3kv |
| • Surface wiring | • Submersible pump cable | • Single core double PVC cable |
| • Twin illumination cable | • Nitrile trailing cable | • Single core double PVC AWA PVC cable |
| • Cabtyre | • PVC nitrile welding cable | |
| • Single core flex | • Flame retardant (FR) armoured cable | |

*SOEW is a medium-sized manufacturer of electrical cables with its main market in the general-purpose market, focusing on the wholesale sector. The company manufactures the full range of low voltage electrical cables, from typical household wiring to industrial steel wire armoured cables. These are sold to electrical wholesalers and distributors who supply the building, construction, mining and retail industries.*

**SOEW is a wholly owned subsidiary of South Ocean. SOEW accounted for 68,3% of group revenues and 55,0% of group operating profits for the year.**

Improvements in productivity, a more stable Rand Copper Price (RCP) and better economic conditions saw SOEW improve its operating profit by 139,9% to R48,7 million (2009: R20,3 million) during 2010. The company managed to increase its market share marginally, while continuing its focus on cost containment measures implemented in the prior year.

## Performance

Despite a slower than expected recovery in the building and construction sector, SOEW benefited from improved demand from industries such as mining and commercial property.

A major driver of the company's improved performance was the more stable RCP. By December 2010, the copper price had increased by 17,7% from its December 2009 base price, and at R59 099/ton was 12,6% lower than the peak price of 2008. Overall the moving average copper price for 2010 was up 29,5% on the previous year. As a result, SOEW's net revenues increased 31,3% to R777,1 million (2009: R591,9 million).

The sustainable reduction of expenses during the prior year provided a good foundation on which to build. The company's focus on cost containment was rewarded over the past year as overall costs increased only 3,2%, excluding foreign exchange losses, compared to the prior year. The net result was an improvement in the operating profit of 139,9% from a very difficult prior year.

## Operations

SOEW cut back operating hours during the economic downturn, and during the year operating hours returned to normal. This enabled the company to take advantage of improved demand for electrical cabling as the economy showed signs of recovery. SOEW's focus remained on providing excellent service to customers and supplying quality product in order to grow volumes.

The company achieved growth in volumes through strict management of machine breakdown hours, which decreased by 23,8% on the previous reporting period, the result of an emphasis on preventative maintenance to reduce plant down times. Further productivity improvements resulted from the implementation of a new production planning system.

SOEW continued to focus on providing quality products to its customers, with quality control facilities and a testing laboratory to ensure that SOEW products' compliance with SABS standards and the ISO 9001: 2008 quality management system. Software for testing the quality of products during production was upgraded, leading to further quality improvements.

Changes to the group's marketing strategy involved co-branding SOEW and Radiant to increase customer awareness and promote cross-selling. Expansion into Africa on the electrical cabling front is proving more difficult than expected. Product specifications differ from country to country and price competition remains fierce. Exports into SADC and neighbouring countries declined marginally to contribute 1,1% of sales (2009: 1,6%).

## People

SOEW's staff complement consists of 273 employees including: electrical, engineering, administration, marketing, skilled and semi-skilled personnel. This represents an increase from the prior year, with a number of strategic appointments being made.

The company consistently works to improve the skills level of staff, encouraging growth and development throughout the organisation. The company shifted its focus from Adult Basic Education and Training to on-the-job training to ensure maximum output in terms of production and workplace skills. A variety of internal training and workshops were offered using the skills and expertise of the personnel within the company.

SOEW focused on improving the education of artisans in particular, shifting emphasis to internally-provided programmes. Dispatchers were trained to understand the products they delivered to customers while operators were given training on specific machines. These programmes emphasised relevance to employees' job descriptions. The result was improved productivity and higher levels of quality. Turnaround, delivery

and response times to queries also improved significantly. Upcoming training programmes will cover issues such as communication skills, telephone etiquette, Microsoft Office and budgeting. A supervisory development programme will also be put in place.

In an ongoing effort to ensure the health and safety of its employees, the company introduced safety notice boards and new signage. Regular in-house meetings and safety talks were given and specific attention paid to strict housekeeping rules to ensure safety incidents were minimised. During 2010, 28 minor incidents were reported (2009: 54) with no serious accidents reported in the past two years. Workshops on fire fighting, first aid, hazard identification and risk assessment as well as compensation for occupational injuries were conducted.

## Prospects

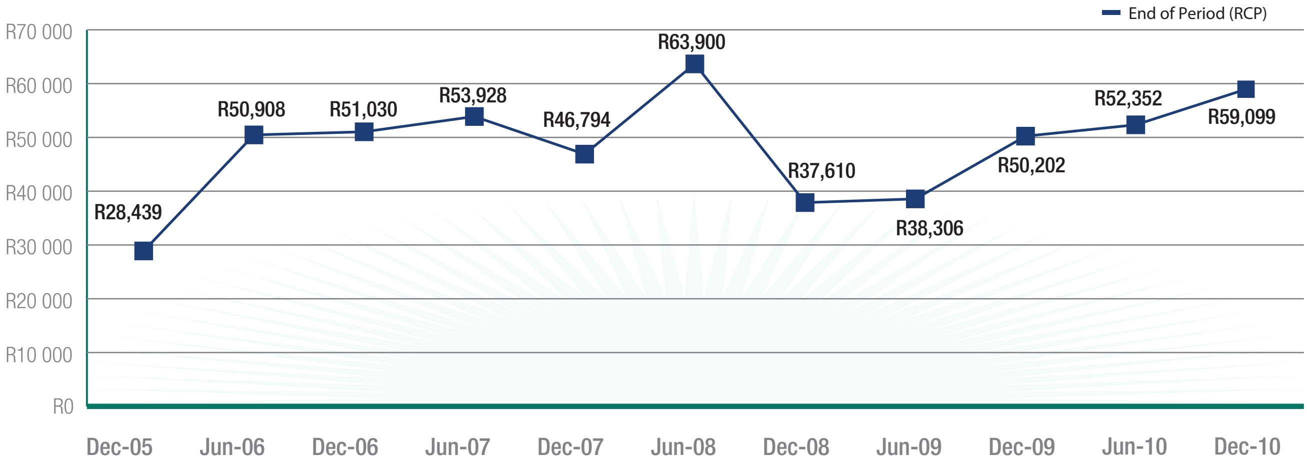
SOEW's focus on maintaining production levels, improving operational efficiencies and cutting costs has positioned the company well for future growth. The rate of recovery in the domestic infrastructure market will largely be driven by public sector spend, specifically, the timing of the government's R808 billion infrastructure spend. However, with recovery in the construction industry expected to lag into 2011, SOEW's strategy of increasing volumes by targeting a wider range of sectors is supported by product diversification, additional production capacity and increased operational improvements.

A 10 000m$^2$ factory will be completed in the next financial year and volumes are expected to increase by 10% in Phase 1 of operations. The additional production capacity will enable SOEW not only to diversify its product range, but also to utilise technological improvements to expand volumes. The new plant will enable the company to have more control over input costs and supply.

Pressure on margins are expected to continue in the year ahead and management will focus further on increasing production volumes and taking advantage of the additional capacity commissioned during 2009.

SOEW plans to invest in efficiency-enhancing machinery, monitoring and increasing selling prices wherever possible and promoting profitable products.

## End of Period (RCP)



Review
of operations
**Radiant**

## Radiant senior management




**Gerard Pillay (50)**
Managing Director

Gerard was appointed Managing Director of Radiant in May 2010. He joined Radiant in 2005. Gerard was responsible for the development of Radiant's lamps division. In 1998 Gerard started Lohuis, an importer and distributor of lamps in South Africa, which was merged with Radiant in 2005. Gerard has 28 years' experience in the lighting industry.

**Chris Calitz (55)**
Divisional Director: Product Development

Chris was appointed Divisional Director: Product Development in May 2010. Chris has been involved in procurement and sales since he joined Radiant in 2006. He has more than 16 years' experience in the lighting business, especially in the areas of logistics, freight forwarding and costing. During his time at Radiant, Chris has dealt extensively with factories in Taiwan and China and specialised in the development of light fittings, low voltage and LED items.

**Anthony Lloyd (38)**
Divisional Director: Sales and Marketing

Anthony was appointed Divisional Director: Sales and Marketing in May 2010. Anthony joined Radiant in 1999 as a senior sales person and progressed to National Sales Manager where he developed and grew the Radiant sales team. He has extensive experience in the lighting industry, including in different African countries.

**Farhad Ally (37)**
General Manager: Finance and IT

Farhad was appointed as General Manager: Finance and IT in June 2010. Prior to this he was employed as an audit manager at a firm of public accountants and auditors. Thereafter, he moved to an FMCG company and financial services company. Farhad has experience in internal and external auditing, finance, taxation and business analysis. He is a member of the South African Institute of Professional Accountants and the Institute of Directors in Southern Africa.

## Radiant's product range

**Radiant Fittings**

- Over 5 200 fittings
- Downlights
- Spotlights
- Lamps
- Wall lights
- Ceiling Lights
- Pendants
- Chandeliers
- Effect lighting
- Utility lights
- Foot lights
- Outdoor lights
- Accessories

**Radiant Lamps**

- Over 900 different products
- 3rd largest lamp supplier in SA
- LED and energy saving

**Radiant Electrical**

- Fastest growing division
- Over 600 different products
- Energy efficiency
- Market leading innovative products

*Radiant is the leading supplier of light fittings in South Africa and a major supplier of lamps, with a growing share in the electrical accessories market. In addition to focusing on driving innovation and technology across its product range, the company dedicated significant resources to building the Radiant brand across all its markets and made operational improvements to enable it to improve service delivery to its customers.*

# Review of operations – Radiant continued

**Radiant is a wholly owned subsidiary of South Ocean. It accounted for 31,7% of group revenues and 34,5% of group operating profits for 2010.**

The strategic restructuring of Radiant and streamlining of the business helped Radiant to maintain volumes and market share in what continued to be a difficult trading environment. Expansion helped sustain results, although volumes for lighting and electrical products remained static due to slow recovery in the housing and construction markets. As a result revenues were down marginally by 1,4% to R361,0 million (2009: R366,0 million).

Since Radiant sources its goods from various international manufacturers and, to a lesser extent, local manufacturers, input prices are correlated with the strength of the rand. Suppliers range from high-end European manufacturers to bulk manufacturers in China and over the past year, the strong Rand had a positive effect on input prices.

During 2010, operating expenses were down 3,7% on the previous year, despite inflationary increases due to management's continued focus on cost containment.

## Performance

Radiant's operating structure was reorganised in order to simplify reporting lines, improve transparency and communication and build a business that puts the customer firmly at the centre.

A new management structure was implemented with management responsible for sales and marketing and business development. This new structure meant the company could focus on growing market share and volumes in both the retail and electrical accessories markets.

A shift in the marketing and sales strategy saw Radiant targeting retail customers as well as the industrial and commercial sectors. The projects division provides a channel to explore new sales opportunities and promote product diversification.

Although operating profit was down 12,9% to R30,5 million (2009: R35 million) and operating margins decreased to 8,4% (2009: 9,6%), the company's structure now underpins its ability to take advantage of the economic recovery.

Radiant's expansion into Africa saw export volumes grow by 12% year-on-year, with Radiant now distributing in Namibia, Botswana, Zimbabwe, Mauritius, Tanzania, Uganda and Zambia. Of particular note, was the awarding of two significant contracts to Radiant to provide lighting solutions to two hotels being built in Addis Ababa, Ethiopia. Another two significant projects were completed in the Seychelles and Mauritius.

## Operations

Investment in new purchasing and procurement systems has had a positive impact on stock management and customer service. A new warehouse management system was implemented in Johannesburg's bulk warehouse which utilises the latest technology to reduce paperwork and human error. The system will go in live in Cape Town in 2011.

Radiant continues to focus on innovation in its markets and its product development unit focuses exclusively on communicating with customers and developing products to suit their requirements. Much of the innovation and technology is directed at providing energy saving and green products for both commercial and residential projects. An LED specialist was contracted during 2010 to ensure that Radiant sources the highest quality of energy saving lamps, providing value for money for customers in this growing market.

Radiant's emphasis on high quality products means continuously evaluating the company's procurement strategy and streamlining procurement processes to ensure strict quality control. All suppliers must comply with quality and safety guidelines and the company is undertaking a process of ensuring the factories we purchase from are ISO compliant. Approximately 85% of its products are imported, while the remaining proportion is sourced from local manufacturers. Radiant aims to increase the proportion of its products sourced from local factories and in this regard continues to partner with the South African manufacturing sector.

Product development at Radiant enables the company to deliver lighting solutions to clients that are inspired by the latest global trends. A focus on backup service and maintenance to all our clients continues to set the company apart from competitors.

## People

To support Radiant's efforts to grow its market share, a number of changes at management level were made during the year. The process of reorganising Radiant's management team was completed and this enabled the company to improve processes and support the company's customer-centricity drive. The company's focus remains on strengthening Radiant's position in South Africa.

The company is headed by Gerard Pillay (Managing Director) and supported by Chris Calitz (Divisional Director: Product Development), Anthony Lloyd (Divisional Director: Sales & Marketing) and Farhad Ally (General Manager: Finance and IT) with extensive experience in the lighting industry.

Through optimising the business Radiant's staff complement decreased to 358 in 2010, down from 386 in 2009. The company continued to invest in the development of its staff, with training focusing on basic sales skills and product awareness. Staff members develop in-depth product knowledge, helping to differentiate Radiant in a busy market place. From account managers to showroom assistants, training and development remains an important part of delivering on Radiant's strategy.

## Prospects

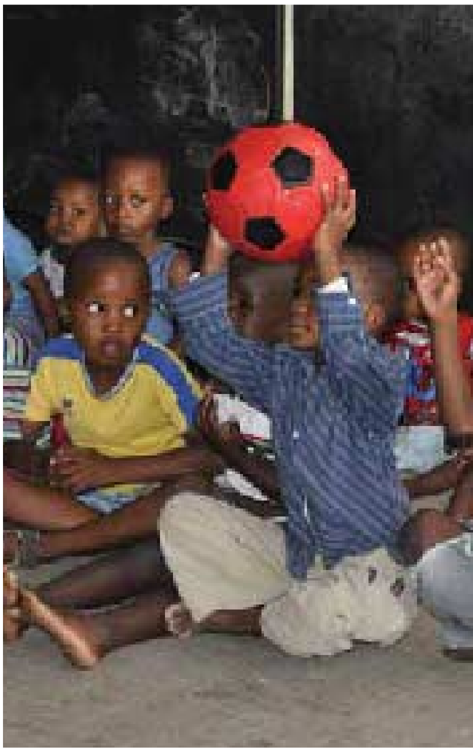
The operational changes introduced at Radiant have laid the foundation for a service-oriented and customer-centric company. Volumes and sales are expected to improve in the year ahead as the company drives product diversity and continues to improve service delivery and efficiencies.

During 2010, the new Durban, KwaZulu-Natal distribution centre became fully operational which will enable the company to better service and grow its customer base in the province. Radiant now has a national branch network and this increased footprint will enable better service delivery.

Improvements in the housing market are expected in the second half of 2011 and retail figures are expected to be more positive. The team intends to grow sales and volumes and market share and expand into Africa, as well as internationally.

*South Ocean's commitment to sustainable development is underpinned by a philosophy of creating value for all stakeholders and adopting an integrated approach to managing the economic, social, environmental and corporate governance aspects of its business.*

# Sustainability report



**The values of good corporate citizenship underpin South Ocean's approach to sustainability. The group recognises that its future growth and sustainability rests on its contribution to South African society and its investment in socio-economic transformation.**

## Responsibility of sustainable development

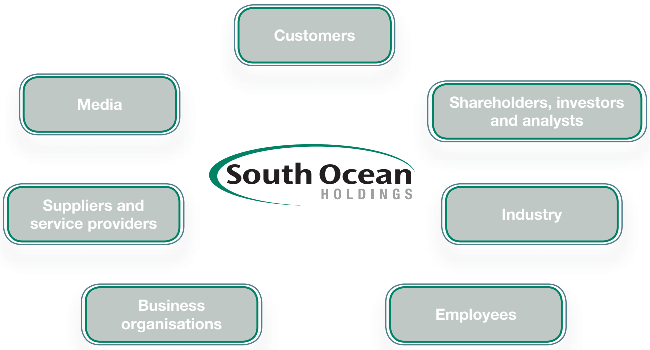
The responsibility to enhance the sustainable development of the South Ocean group is accepted by the board. The board is assisted by sub-committees while executive management is responsible for ensuring that sustainable development programmes are implemented.

## Governance, ethics and values

Governance, ethics and values are dealt with in the corporate governance section of this report. The group has a code of ethics in place and is committed to a policy of fair dealing and integrity in the conduct of its business on an individual and corporate level.

## Engaging with our stakeholders

Communicating and engaging with our stakeholders is an important part of South Ocean's sustainability strategy. We have identified seven groups of stakeholders and put in place processes and strategies to ensure that we maintain regular informal and formal communication with each of these. Through these relationships we are able to identify and report on any issues that may arise as a result of these interactions.




Below is a table summarising identified stakeholder groups, how South Ocean engages with them.

| Stakeholder | Method of communication |
|---|---|
| **Customers** | • Advertisements<br>• Website<br>• Annual report<br>• Face-to-face meetings |
| **Shareholders, investors and analysts** | • Annual General Meeting<br>• Bi-annual results presentations<br>• Annual report<br>• Corporate website<br>• Presentations at institutional showcases<br>• SENS announcements |
| **Industry** | • Association of Electric Cable Manufacturers of South Africa meetings<br>• Illumination Engineering Society of South Africa (IESSA) meetings |
| **Employees** | • Intranet<br>• Communication boards<br>• Union meetings<br>• Shop steward meetings<br>• Face-to-face meetings |
| **Business organisations** | • Face-to-face meetings |
| **Suppliers and service providers** | • Regular meetings<br>• Attending industry shows |
| **Media** | • Media releases<br>• Radio and television interviews<br>• Presentations<br>• Roadshows |

## Social aspects

### Employees

South Ocean understands that its employees are the foundation of the group's success. The ability to attract, develop and retain the necessary skills and competencies to meet its growth objectives remains one of the most important aims of the group. This includes creating a supportive work environment in which employees are motivated to engage and to contribute their best efforts to the organisation and develop to achieve their potential.

*Broad-based Black Economic Empowerment (BBBEE)*

BBBEE in South Africa is aimed at broadening participation in the economy and sharing of benefits to include individuals who were excluded or disadvantaged in the past on the basis of race. The group is committed to meeting the objectives of the Codes of Good Practice and continues to monitor its compliance in this regard. It has implemented a human resources plan which emphasises internal development and promotion and increases the leadership pipeline of previously disadvantaged individuals.

*Preferential procurement*

The group procurement policy focuses on suppliers of goods and services who are able to supply a BBBEE certificate and we identify suppliers who have made progress on their BBBEE scorecard.

*Employment equity*

As a responsible corporate citizen, South Ocean is committed to a workforce that reflects the demographics of the societies in which it operates.

The group does not unfairly discriminate on grounds of gender, race, religion, disability or sexual preference. It subscribes to the principle of equal opportunity and embraces diversity across its operations. The group has an employment equity policy that contains guidelines for the development of previously disadvantaged individuals. Equal opportunities are offered to all prospective employees.

South Ocean's employment equity and skills development plans are regularly reviewed by management and are aligned to the strategic training and development goals of the group. The group still experiences a scarcity of skills in the industry, which has an impact on the achievement of its equity targets and objectives.

*Employment incentives*

Our employees play a critical role in the success of our businesses. The ability to attract and retain suitable qualified staff is a high priority for the group. A short-term incentive scheme is in place in which key employees participate if the targets set for the year are achieved. There is also a long-term incentive scheme in place to retain our key personnel.

The employment comparison as at year end between White and African, Indian and Coloured (AIC) employees are set out below;

| | **2010** | | 2009 | |
|---|---|---|---|---|
| | **AIC** | **White** | AIC | White |
| Board | **4** | **4** | 3 | 4 |
| Executive | **2** | **4** | 1 | 6 |
| Senior management | **1** | **8** | 1 | 15 |
| Middle management | **3** | **16** | 5 | 12 |
| Skilled and semi-skilled | **349** | **94** | 325 | 150 |
| Unskilled | **151** | **5** | 121 | 8 |
| | **510** | **131** | 456 | 195 |

*Value creation for employees*

The group has dynamic leadership. The standards set for the year are higher than the previous year and are achievable. A sound value system is in place, based on integrity, honesty, accountability and transparency.

Key employees participate in the long-term incentive scheme (share appreciation scheme) which is payable after three years if any growth in the underlying share values is achieved.

All vacancies are first advertised internally within the group, as it is the policy of the group to first promote its own staff before the position is advertised externally.

Salary and wage negotiations are done on behalf of the employers in the cable industry by Steel Industries and Engineering Federation of South Africa (SIEFSA), which was last negotiated in 2008 for a period of three years. Collective bargaining is conducted annually at operations not represented by SIEFSA and generally the outcome of the collective bargaining is to the satisfaction of both parties.

The employees at the manufacturing plant belong to National Union of Mineworkers of SA (Numsa), which is the only recognised union in the group.

Communication with staff takes place via shop steward meetings, union meetings and circulars, notices placed on the notice boards and via emails with staff who have access to it.

*Freedom of association*

South Ocean gives its formal assurance that employees have freedom of association with employee representative organisations and trade unions. The group recognises trade unions that are sufficiently representative of employees at the appropriate organisational level. There were no violations of freedom of association and collective bargaining during the year.

*Human rights*

Human rights addressed in our code of ethics are:

- Adherence to the law;
- Fairness;
- Honesty; and
- Respect for others.

It is not the policy of the group to support any political party, but it accepts the personal participation of its employees in the political process and respects their right to absolute privacy in regard to personal political activity.

Any conflicts or breaches in human rights can be dealt with through the grievance procedure that is in place and victimisation of employees is strongly prohibited. The assistance of the union or fellow employees can be obtained during the internal procedures.

A “zero tolerance” policy towards any fraudulent or corrupt action is in place and offers protection to employees who raise the issue or bring the matter to the attention of management through whistle blowing or other processes.

*Employee development*

The group has various initiatives to enable its staff across all levels to further their education. The most notable development activity is at SOEW’s Alrode facility where employees are provided with on-the-job training in subjects relevant to their work. The group also encourages employees to enrol for Adult Education and Training courses, which are funded by the group.

During the year a number of training courses have been conducted, focusing on the development of technical skills. Some of the courses that were presented during the year include:

- sales and marketing;
- machine operators on-the-job training;
- computer training;
- health and safety;
- fire fighting; and
- first aid.

Professional staff members are encouraged to participate in continuing professional development initiatives organised by the professional bodies to which they belong.

During 2010, the development of employees’ technical skills remained a high priority which has had a positive impact on productivity.

The group respects the principles embodied in the Skills Development Act and has skills development plans which are submitted annually. Implementation against the targets has ensured that maximum benefit is received.

*HIV and Aids*

A group-wide HIV and Aids programme incorporates education and awareness initiatives. All employees are encouraged to attend educational sessions, to take the necessary precautions to prevent infection and to regularly check their status. Confidential counselling is available to all employees at their request. The group recognises that the implication of this pandemic can have a material effect on the long-term issues of sustainability. To date it has not been affected significantly by HIV and Aids.

*Occupational health and safety*

Employee safety is of primary concern, and compliance with safety regulations and procedures is rigorously enforced, including the wearing of personal protection equipment. Instances of workplace injuries and accidents are fully investigated, and where necessary, steps are taken to avoid future incidents. There are currently no outstanding claims which require employees to be compensated for health and safety matters.

Occupational health and safety standards are covered by prevailing occupational health and safety regulations. In order to ensure a balanced management approach, the group operates health and safety committees that ensure the group abides by these provisions. The committees consist of senior management and health and safety representatives selected from the shopfloor.

Meetings are scheduled on a regular basis depending on the working environment and requirements. The committees report on compliance issues and safety incidents and make recommendations on areas for improvement. Appointment of safety representatives, first aid practitioners, fire fighters and the overseeing of safe operation of equipment are amongst its functions. Regular independent reviews are conducted to ensure compliance and improving standards.

## Environmental

South Ocean recognises its responsibility to ensure that its activities have a minimal impact on the environment and is committed to reducing any negative impacts of its commercial activities on the environment.

The group complies with various controls in terms of legislation and quality standards, including the Occupational Health and Safety Act and ISO 9001:2008. The Health and Safety Committees are responsible for the disposal of all hazardous materials. Third party compliance audits are undertaken for the management of lubricants, sound and air pollution and related environmental issues.

Radiant has implemented a comprehensive waste recycling programme. Streams of waste that are monitored include aluminium, paper, glass and packaging. Recovered waste is either recycled, re-used in packaging, collected or sold.

SOEW continues to focus on minimising waste at its Alrode operation. All waste materials generated in the production process are recycled. Lubricants and oils used in SOEW's manufacturing processes are collected and recycled by a third party. There is also a focus on ensuring maximum efficient use of operating equipment over its lifetime, with ongoing maintenance as an important part of this strategy.

In addition to implementing internal activities to improve the group's environmental performance, South Ocean recognises that it has a role to play in providing solutions to its customers to mitigate their impact on the environment.

Through Radiant's continued emphasis on innovation, especially in the development of green and environmentally friendly lighting options, the group endeavours to support customers in their efforts to reduce their power consumption and carbon footprint.

At its operations in Johannesburg and Cape Town, Radiant focused on reducing energy consumption across its operations by installing occupancy sensors in the showrooms and offices ensuring that lights are switched off automatically when a space is not in use.

## Society

### Corporate Social Investment

The group views corporate social investment (CSI) as vital for empowering previously disadvantaged individuals and uplifting communities. During the year, both Radiant and SOEW undertook community projects aligned to their businesses and serving communities close to where they operate.

*Eden Park Primary School*

SOEW has identified a number of schools in need, particularly in communities from which its staff are drawn. The company provided materials such as bricks, concrete slabs, windows and door frames as well as paving bricks to upgrade and maintain the facilities of a school in Eden Park. The company also provided the transport for the delivery of these materials. During the year ahead SOEW will continue with this project and will supply and fit lights, cables and plugs as well as repair damaged electrical appliances.

*Itlhokomeleng Association for Aged & Disabled Persons*

Radiant continues to maintain all light fittings and lamps at the home and conducts regular check-ups to ensure residents of the home continue to benefit from improved lighting and heating.

*Visi Charity Project*

Radiant donated fittings to the Visi Charity Project in June 2010. The Visi Charity Project was involved with the upgrade of a hospital facility in the Western Cape area.

*Pink Lunch charity event*

In August 2010 Radiant donated light fittings to be auctioned off at the "Pink Lunch" charity event which was in aid of Reach for Recovery for Breast Cancer Awareness.

*St Luke's Hospice*

Radiant supported St Luke's Hospice online auction in August 2010 by donating light fittings for an auction which was held in aid of raising funds for terminally ill patients.

*Thuthuzela Aid Community Centre*

Radiant assisted Thuthuzela Aid Community Centre (TACC) in Alexandra by donating light fittings to upgrade the facility as well as sponsoring a Christmas party for the children.

Lighting was improved where required and exterior lighting was installed to improve security. Broken fittings and wiring was fixed inside the building where necessary. The upgrade to the lighting increased the functionality of the building and made it a brighter place to live.

Ongoing utility costs were taken into consideration by using energy efficient exterior metal halide and compact fluorescent (CFL) floodlights, to ensure the orphanage's electricity bill remains low.

Radiant also purchased stationery for the crèche and presents for the permanent residents that were handed out before Christmas. It also held a party for the children.

# Value added statement

| | 2010 R'000 | 2009 R'000 | 2008 R'000 |
|---|---|---|---|
| Revenue | **1 138 130** | 957 972 | 1 136 617 |
| Payments to suppliers and providers of services | **(903 508)** | (766 507) | (795 120) |
| Value added | **234 622** | 191 465 | 341 497 |
| Income from investments | **7 630** | 14 535 | 4 283 |
| Total value created | **242 252** | 206 000 | 345 780 |
| Distributed as follows: | | | |
| Employees | **123 880** | 117 947 | 102 694 |
| Providers of capital | **18 146** | 18 531 | 69 852 |
| Finance costs | **13 455** | 18 531 | 27 630 |
| Dividends | **4 691** | – | 42 222 |
| Government | **28 320** | 22 387 | 55 190 |
| Income taxation | **24 456** | 19 931 | 53 318 |
| Rates and taxes | **1 562** | 812 | 183 |
| Skills development levy | **629** | 649 | 631 |
| Customs and excise | **1 673** | 995 | 1 059 |
| Retained for growth | **71 906** | 47 135 | 118 043 |
| Depreciation, amortisation and impairment | **18 388** | 18 157 | 57 282 |
| Deferred taxation | **1 748** | (2 679) | (340) |
| Retained profit | **51 770** | 31 657 | 61 101 |
| | **242 252** | 206 000 | 345 780 |
| **Value added statements ratio analysis** | | | |
| Number of employees | **641** | 651 | 661 |
| Revenue per employee | **1 776** | 1 472 | 1 720 |
| Value added per employee | **366** | 294 | 517 |
| Average salary per employee | **193** | 181 | 155 |

# Corporate governance

**The introduction of the integrated reporting requirements contained in King III in South Africa has changed the governance landscape in the South African corporate environment. Transparency, responsibility and accountability have been re-defined for companies operating in South Africa.**

South Ocean is listed on the JSE and accordingly is compelled to comply with the South African Companies Act (the Act), the JSE Listings Requirements and various other local legislation. We are also mindful of the promulgation of the Companies Act.

Governance processes are driven by executive management under the guidance of the board and the Company Secretary. As such the board has considered and reviewed the King lll Code and its application to governance processes at various intervals. The group complies with the majority of the provisions of the Code and it acknowledges that some of the provisions require a fundamental shift in the way in which the governance of the group operates.

The board places corporate governance at the forefront of its responsibilities. The board has already made certain changes in its operations and procedures as it attempts to comply with the requirements of this Code.

## Ethical leadership and corporate citizenship

### Ethics

The board formally adopted a Code of Ethics which is made available to all senior executives and employees within the group. The group insists that all in its employ conduct themselves with integrity in their internal and external dealings and that they adhere consistently and uncompromisingly to the highest standards of ethical behaviour.

The group works hard to ensure that the principles enshrined in the code of ethics are upheld and entrenched as an integral part of the corporate culture. The essential principles of ethical behaviour feature regularly in training sessions and a summary is displayed prominently in work areas to encourage top-of-mind awareness. Our intention is that our business actions and dealings should be wholly governed by these ethical principles.

The group has in operation a whistle blowing process which all employees are encouraged to utilise. This is operated by an independent company in a confidential and safe manner that ensures that the employees and other parties that report unethical behaviour are not compromised.

The code of conduct deals with:

- Compliance with laws and regulations;
- Conflict of interest;
- Employment equity;
- Environmental responsibility;
- Political support;
- Protection and use of company assets;
- Integrity of financial information;
- Employment matters;
- Dealing with outside persons and organisation;
- Privacy and confidentiality; and
- Obligations of employees.

In terms of accountability, all employees must perform their duties diligently, effectively and efficiently, and in particular:

- Support and assist the group to fulfil its commercial and ethical obligations and objectives as set out in this code;
- Avoid any waste of resources, including time;
- Be committed to improve productivity, achieve the maximum quality standards, reduce ineffectiveness, and avoid unreasonable disruption of work activities;
- Commit to honouring their agreed terms and conditions of employment;
- Not act in any way that may jeopardise the shareholders' rights to a reasonable return on investment;
- Act honestly and in good faith at all times and report any harmful activity they observe in the workplace;
- Recognise fellow employees' rights to freedom of association and not intimidate fellow employees;
- Pay due regard to environmental, public health and safety conditions in and around the workplace; and
- Act within their powers and not carry on the business of the group recklessly.

The board has no reason to believe that any material contravention of the code of ethics took place during the year under review.

## Board members

Board members were:

| **2010** | Independent non-executive | Non-executive | Executive |
|---|---|---|---|
| EG Dube (Chairman) | √ | | |
| KH Pon | √ | | |
| HL Li | | √ | |
| CY Wu | | √ | |
| CH Pan (alternate) | | √ | |
| M Chong | √ | | |
| DL Tam | √ | | |
| EHT Pan | | | √ |
| JP Bekker | | | √ |
| PJM Ferreira (alternate) | | | √ |

### Board leadership

The board takes initiative to ensure that all its members are of highest ethical standard and they take the lead in directing the activities of the group in a manner consistent with the ethical standards. The board does not only look at the financial performance of the group, but also its standing as a corporate citizen within the operating environment.

## The constitution, composition and the operation of the board of directors

### The board

The board consists of a majority of non-executive and independent non-executive directors with only the Chief Executive Officer and the Chief Financial Officer representing the executive management on the board. The Group Chief Operating Officer has been appointed as an alternate executive director to the board in the absence of the Chief Executive Officer.

The board operates in terms of a formally adopted board charter which sets out all activities, roles and responsibilities of the board, the main elements of which are:

- The Chairman of the board must be an independent, non-executive director;
- A formal orientation programme for new directors must be followed;
- Specific policies, in line with King III, must exist with regard to conflicts of interest and the maintenance of a register of directors' interest.
- The board must conduct an annual self-evaluation;
- Directors must have access to staff, records and the advice and services of the company secretary;
- Succession planning for executive management must be in place and must be updated regularly;
- Strategic plans and an approvals framework must be in place and must be reviewed regularly;
- Policies to ensure the integrity of internal controls and risks management must be in place; and
- Social transformation, ethics, safety, health, human capital, and environmental management policies and practices must be monitored and reported on regularly.

This charter is periodically reviewed and evaluated in line with the changes in legislation and governance guidelines. The charter does not provide for any specific maximum number of board members, but allows the board to continuously evaluate itself as to the sufficiency given its duties and responsibilities at any stage.

The board is authorised to appoint new directors between annual general meetings. In such cases the appointees are required to retire and stand for re-election at the subsequent annual general meeting of the company.

The directors are experienced business people and are required to exercise leadership, integrity and judgement based on the principles of good governance. The board is committed to guiding and monitoring these high standards.

The directors are requested to table their interest in any material contracts and shareholding in outside companies at every meeting and if necessary are requested to recuse themselves from discussions in meetings where these conflicts exist.

The board is required to meet at least four times per year. During board meetings matters reviewed include: operational performance; strategy; planning; empowerment compliance; acquisitions; disposals; review of risks applicable to the business; budgets; and other material aspects pertaining to the achievement of the group's objectives.

### Non-executive directors

Non-executive directors do not have fixed terms of appointment, but are required to retire by rotation and are eligible for re-election by shareholders at the annual general meeting of the company.

All the directors retire at their first annual general meeting of the company and a third of the directors retire annually. The directors to retire are those that have been longest in the office since the last election and are eligible for re-election at that meeting.

Recognising the need to expand financial expertise of the board, Ms Melanie Chong, a chartered accountant, was appointed to the board as well as the Audit and Risk Management Committee on 1 April 2010. Ms Debbie Tam, currently the Chief Operating Officer of Mustek Limited, was also appointed to the board on 25 November 2010 and replaced Mr Ethan Dube, Chairman of the board, on the Audit and Risk Management Committee so that the King III requirements can be complied with.

We believe that the non-executive directors are of suitable calibre and their views carry significant weight in board decisions.

### Executive directors

Currently, the Chief Executive Officer and Chief Financial Officer serve as executive directors of the board. The Chief Operations Officer serves as an alternate director to the Chief Executive Officer.

### The Chairman

The Chairman is an independent non-executive board member. The board charter provides for a separation of responsibilities between those of the Chairman and the Chief Executive Officer and does not allow for these two positions to be filled by the same individual.

The board elects the Chairman based on his experience and potential contribution to the achievement of the objectives of the board as stated in its charter. The board has not initiated any process for the succession planning of the Chairman as yet, which will be attended to in the future. The existing independent non-executive directors are of sufficient calibre and experience to step in as such should the need arise.

The Chairman presides over meetings of the board, guiding the integrity and effectiveness of the board's governance process. This includes ensuring that no individual dominates the discussion, that relevant discussion takes place, that the opinions of all directors relevant to the subject under discussion are solicited and freely expressed, and that the board discussions lead to appropriate decisions.

### Chief Executive Officer

Operational management of the group is the responsibility of the Chief Executive Officer, Mr Edward Pan. His responsibilities include amongst others: developing and recommending to the board a long-term strategy and vision that will generate satisfactory stakeholder value, developing and recommending to the board annual business plans and budgets that support the long-term, strategy, and managing the affairs of the group in accordance with its values and objectives, as well as the general policies and specific decisions of the board. The Chief Executive Officer is not a member of Remuneration and Audit and Risk Management Committees, but attends the committee meetings by invitation. The Executive Committee meetings are facilitated and chaired by the Chief Executive Officer.

## The Company Secretary

Mr WT Green is the Company Secretary and he provides the entire board with detailed guidance on matters related to the discharging of their responsibilities. He is suitably qualified and experienced to act in this position.

The Company Secretary is further responsible for ensuring that board procedures and applicable laws and regulations are fully observed and adhered to. He is also responsible for ensuring that the proceedings and affairs of the board and its committees are properly administered in accordance with their respective laws.

The appointment and removal of the Company Secretary is a matter for determination by the entire board. All directors have access to the advice and the services of the Company Secretary and, in appropriate circumstances, are entitled and authorised, at the group's expense, to seek independent professional advice concerning the affairs of the group.

The certificate required to be signed in terms of Section 268 G(c) of the Act appears on page 41 of this report.

The Company Secretary is not a director of South Ocean or any of its subsidiaries and, accordingly, maintains an arm's length relationship with the board and its directors.

**Whitney Green**
*Company Secretary*

## Director evaluation and development

*Induction*

The board accepts responsibility for the induction of new directors. After an evaluation has been made to establish the developmental needs of the relevant director, the company arranges for the director to be provided with the necessary training at the company's expense.

Where it is considered that the director has experience of being a member on various boards, only the company specific development is considered necessary. A periodic update of legislation changes is considered an integral part of the quarterly reporting to the board. Site visits are also arranged to enable new directors to familiarise themselves with all aspects of the businesses.

*Director evaluation*

The South Ocean board has implemented a board self evaluation system which it uses to evaluate the performance of the individual directors and the board as a whole.

## Attendance at meetings

### Board

A minimum of four board meetings are scheduled per financial year. Additional board meetings may be convened when necessary. Four board meetings were held during the past year. The accompanying table details the attendance by each director at board meetings held during the year under review:

**2010**

| Director | 4 Mar | 3 Jun | 3 Aug | 25 Nov |
|---|---|---|---|---|
| EG Dube (Chairman) | √ | √ | √ | √ |
| KH Pon | √ | √ | √ | √ |
| HL Li | √ | √ | √ | √ |
| CY Wu | √ | √ | √ | √ |
| M Chong | α | √ | √ | √ |
| DL Tam | × | × | × | √ |
| EHT Pan | √ | √ | √ | √ |
| JP Bekker | √ | √ | √ | √ |
| PJM Ferreira (alternate) | © | © | √ | √ |

√ = *Present*
© = *Appointed to the board on 4 August 2010*
α = *Appointed to the board on 1 April 2010*
× = *Appointed to the board on 25 November 2010*

## Board committees

### Audit and Risk Management Committee

The committee met six times in 2010. Attendance at meetings was as follows:

**2010**

| Director | 3 Mar | 14 May | 3 Jun | 2 Aug | 27 Oct | 24 Nov |
|---|---|---|---|---|---|---|
| KH Pon (Chairman) | √ | √ | √ | √ | √ | √ |
| EG Dube | √ | √ | √ | √ | √ | √ |
| CY Wu | √ | √ | √ | √ | √ | √ |
| M Chong | α | √ | √ | √ | √ | √ |
| DL Tam | × | × | × | × | × | × |

√ = *Present*
α = *Appointed on 1 April 2010*
× = *Appointed on 25 November 2010*

Mr Dube was replaced as a member of the Audit and Risk Management Committee by Ms Debbie Tam on 25 November 2010 to comply with King III.

## Remuneration Committee

The Remuneration Committee met twice in 2010. Attendance at meetings was as follows:

**2010**

| Director | 3 Mar | 24 Nov |
|---|---|---|
| KH Pon (Chairman) | √ | √ |
| EG Dube | √ | √ |
| HL Li | √ | √ |

√ = *Present*

## Board committees

To enable the board to discharge its responsibility and duties, during the period under review, certain of the board responsibilities have been delegated to the Executive Committee, Audit and Risk Management Committee and the Remuneration Committee, the activities of which are dealt with more fully below. The board is satisfied that all committees have met their respective responsibilities for the period under review.

All these committees operate in terms of established and approved terms of reference which act as a guide for their activities. With the exception of the Executive Committee chaired by the Chief Executive Officer, all other committees are chaired by an independent non-executive director.

Particulars of the composition of the board of directors and committees appear on pages 26, 29 and 31 of this report. The charters of the board committees are reviewed on an ongoing basis to ensure that the committees' duties and responsibility are aligned with the requirements of corporate governance and keep trend with all new developments.

The Audit and Risk Management Committee will become the statutory committee to comply with the requirements of the new Companies Act and in terms of the recommendation set out in King III. The shareholders will now elect the members of this committee  at the next Annual General Meeting.

### *Audit and Risk Management Committee*

Members of the Audit and Risk Management Committee during the year were:

**2010**

| Member | Independent non-executive | Resignations | Appointments |
|---|---|---|---|
| KH Pon (Chairman) | Yes | | |
| EG Dube | Yes | 25 Nov 2010 | |
| M Chong | Yes | | 1 Apr 2010 |
| DL Tam | Yes | | 25 Nov 2010 |
| CY Wu | No | | |

The Audit and Risk Management Committee is fully mandated by the board by means of written terms of reference as to its membership, authority and duties.

This committee meets periodically, at least four times per year, with executive management and invites the external auditors and internal auditors to attend its meetings at least twice a year. The external auditors have unrestricted access to the Audit and Risk Management Committee and its chairman, thus ensuring their independence and the impartiality of their reports.

This committee reviews the annual financial statements and interim reports, monitors the appropriateness of accounting policies and the effectiveness of the systems of internal control and considers the findings of the external audit. Review of the group's reporting processes is undertaken to ensure that they are aligned and are not conflicting.

The committee is also responsible for the review and ensuring that management has processes, strategies and systems in place for the identification, management and control of all group risks.

The appointment, management and monitoring of the work of both the external and internal auditors are amongst the responsibilities of the committee. In addition the committee considers and satisfies itself on the appropriateness and experience of the Financial Director (Chief Financial Officer).

We believe that the members of the committee are properly qualified and experienced in finance, accounting and risk management and are knowledgeable about the affairs of the company.

The Audit and Risk Management Committee charter sets out the responsibilities of the committee, which include:

- The preparation of financial reporting and statements in compliance with all required legislation, accounting standards and and corporate governance;
- The company's compliance with legal and regulatory requirements;
- Overseeing the internal and external auditors' function;
- Evaluating the risk profile and risk management of the group; and
- Assisting the board relating to the safeguarding of assets and operation of effective internal control systems and compliance with the ethical standards adopted.

The committee also attends to the following responsibilities required by King III and the JSE Listing Requirements:

- Evaluating and confirming the independence of the external auditors; and
- Reviewing the expertise, resources and the experience of the group Financial Director.

### *Re-appointment of the independent auditors*

The committee considered the independence of the external auditors, PricewaterhouseCoopers Inc. in accordance with section 270A of the Corporate Law Amendment Act. The committee considered the following aspects to satisfy itself that PricewaterhouseCoopers Inc. is independent:

- The potential threats to the audit independence of any non-audit work which the firm undertakes and, if any, what safeguards the firm has put in place;
- Does the firm, engagement partner or staff directly or indirectly hold any shares in South Ocean; and
- Any other factors which could impact or be considered to impact their independence.

Having considered all facts the committee is satisfied that PricewaterhouseCoopers Inc. is independent and nominated PricewaterhouseCoopers Inc. to be re-appointed as the registered auditor for the 2011 financial year. The board re-appointed PricewaterhouseCoopers Inc. and Ms P Pope, the audit partner, as the independent auditors of South Ocean. The appointment is subject to shareholders' approval at the annual general meeting.

PricewaterhouseCoopers Inc. are accredited in terms of the JSE list of accredited auditors as contemplated in Paragraph 3.86 of the JSE Listing Requirements.

*Internal audit*

The Audit and Risk Management Committee has recommended the appointment of Deloitte & Touche as independent internal auditors to fulfil the group's internal audit function.

The Audit and Risk Management Committee has considered the independence of the internal auditor, Deloitte and Touche. The Audit and Risk Management Committee considered the following aspects to satisfy itself that Deloitte and Touche is independent:

- The potential threats to the internal audit independence of each area of non-internal audit work which the firm undertakes and, if any, what safeguards the firm has put in place;
- Does the firm directly or indirectly hold any shares in South Ocean?;
- Any other factors which could impact or be considered to impact their independence.

Having considered all facts the Audit and Risk Management Committee is satisfied that Deloitte and Touche is independent and nominated Deloitte and Touche to be re-appointed as the internal auditor for the 2011 financial year. The board re-appointed Deloitte and Touche as independent internal auditors of South Ocean.

The role of the internal audit is to review the internal controls, systems and procedures. The Audit and Risk Management Committee is satisfied that the internal controls are adequate in safeguarding the assets, preventing and detecting errors and fraud, ensuring the accuracy and completeness of accounting records and preparing reliable financial statements.

The internal auditor reports to the Audit and Risk Management Committee and has unrestricted access to the Chief Executive Officer and the Chairman of the Audit and Risk Management Committee.

The internal audit programme is approved by the Audit and Risk Management Committee and the internal auditors report to the Audit and Risk Management Committee on their findings after completion of their audit. This meeting is also attended by the external auditors.

*Risk management*

Risk management is the responsibility of the Audit and Risk Management Committee.

The development, implementation and maintenance of strategies to minimise group risk, is geared towards achieving the group's strategic, operations, reporting and compliance objectives and ensures value creation for our shareholders.

The Audit and Risk Committee Management is responsible for:

- Reviewing, on behalf of the board, the effectiveness and integrity of systems and controls relating to risk management, and the associated monitoring processes and procedures:
- Reviewing the approach through which risk management is conducted and the effectiveness of these processes and systems;
- Receiving reports from the Compliance Officer on the adequacy and effectiveness of risk management arrangements;
- Ensure that the disclosure regarding risk is comprehensive, timely and relevant;
- Reviewing reports from management and the internal auditors on the effectiveness and integrity of risk management systems.

Risk management is a dynamic process and we have accepted the challenge and responsibility to address it comprehensively and have set the following objectives:

- Recommend policies, processes, systems and procedures to manage the risk;
- Create a culture of risk awareness and ownership through communication and education;
- Clarify the roles, responsibilities and accountabilities for identification, assessment, and management, monitoring and reporting of all financial and non-financial risks;
- Guide the establishment and maintenance of a robust and measurable approach for risk identification and assessment:
- Assist management to identify, assess, manage, monitor and report effectively on the risks;
- Establish a process that requires all material changes to the business to be subject to adequate risk assessment and due diligence prior to commencement; and
- Enable effective and comprehensive independent and ongoing assessment to be provided by internal audit around the appropriateness and adequacy of risk management.

*Executive Committee*

The executive directors constitute an Executive Committee that meets on a monthly basis, at least ten times a year to plan, review, and manage the day- to-day activities of the group. This committee consists of the Chief Executive Officer, Chief Financial Officer and the Chief Operating Officer. All matters of policy and strategy are referred to the board.

The Executive Committee is responsible for:

- Implementation of strategies and policies of the group;
- Monitoring the business and affairs of the group;
- Prioritising the allocation of capital, technical and human resources;
- Establishing the best management practices and functional standards of the group;

- Senior management appointments and monitoring the performance of senior management;
- Ensuring that regular, detailed reports on the group's activities and performance against strategies operational plans are received and submitted to the board; and
- Ensuring that regular, detailed reports on the group's financial performance and forecasts against budgets are received and submitted to the board.

*Remuneration Committee*

Members of the Remuneration Committee during the year were:

**2010**

| Member | Independent non-executive |
|---|---|
| KH Pon (Chairman) | Yes |
| EG Dube | Yes |
| HL Li | No |

The board has established a Remuneration Committee to advise the board on all the remuneration-related matters. In addition to ensuring the fair remuneration of the senior management of the group, the committee also evaluates and reviews the performance of the senior group executives.

The Remuneration Committee, comprising three members, two of which are independent non-executive directors and one non-executive director, is responsible for ensuring that the group's directors and senior executives are fairly remunerated.

The Remuneration Committee meets periodically, at least twice per annum. The committee has, during the year, reviewed all the group remuneration policies to ensure that these are aligned with the group strategy and are linked to individual performance. The committee met twice during the year.

The Remuneration Committee's responsibilities include the following:

- Overseeing the setting and administering of remuneration at all levels in the company;
- Overseeing the establishment of a remuneration policy that will promote the achievement of strategic objectives and encourage individual performance;
- Reviewing the outcomes of the implementation of the remuneration policy as to whether the set objectives are being achieved;
- Ensuring that the mix of fixed and variable pay, in cash, short- and long-term incentive and other elements, meets the company's needs and strategic objectives;
- Considering the results of the evaluation of the performance of the chief executive officer and other executive directors, both as directors and as executives in determining remuneration;
- Regularly reviewing incentive schemes to ensure continued contribution to shareholder value and that these are administered in terms of the rules; and
- Advising on the remuneration of non-executive directors.

Remuneration to directors and senior management consists of:

- A cost-to-company package determined on position, qualification and experience which is divided into:
  - Fixed monthly guaranteed remuneration calculated as a percentage of the cost-to-company package;
  - Performance bonus equal to the balance of the cost-to-company package payable annually after performance assessment is done;
- Short-term incentives, aim to motivate management to maximise results on the short term, and are paid annually if management meet certain financial targets which relate to Profit before Tax (PBT);
- Long-term incentives, which is a share appreciation scheme, aim to retain senior management, and the main elements are:
  - Allocations to key staff to ensure retention;
  - Allocations are done annually;
  - Payments are due three years after allocation was made, but can be extended for one more year;
  - Maximum value of allocation is calculated at between 33% and 83% of guaranteed pay; and
  - Paid in cash after the specified period.

*Nomination Committee*

The Nomination Committee is responsible for finding suitable candidates for any vacancies on the board. The Nomination Committee will make use of an employment agency to find suitable candidates which will be short listed and interviewed. The Nomination Committee will then recommend the candidate best qualified to the board for approval.

Members of the Nomination Committee during the year were:

**2010**

| Member | Independent non-executive |
|---|---|
| KH Pon (Chairman) | Yes |
| EG Dube | Yes |

The board has established a Nomination Committee to advise the board to:

- Ensuring the establishment of a formal process for the appointment of directors, including:
  - Identification of suitable persons to be appointed;
  - Performance of reference and background checks of candidates prior to nomination; and
  - Formalising the appointment of directors through an agreement between the company and the director;
- Oversee the development of a formal induction programme for new directors;
- Ensure that inexperienced directors are developed through a mentorship programme;
- Oversee the development and implementation of continuing professional development programmes for directors;
- Ensure that directors receive regular briefings on changes in risks, laws and the environment in which the companies operate;
- Consider the performance of directors and take steps to remove directors who do not make an appropriate contribution; and
- Ensure that formal succession plans for the board, chief executive officer and senior management appointments are developed and implemented.

## Dealing in company securities

No employee or director may deal, directly or indirectly, in the South Ocean's shares on the basis of unpublished price-sensitive information regarding the business or affairs of the group during the closed periods. These closed periods include the period from the last day of the interim period results, 30 June, and final period results, 31 December, to publication of the relevant interim and year-end results on the Stock Exchange News Services (SENS) and include any other period during which the company is trading under a cautionary announcement.

All directors are required to obtain written approval from the Chairman or the Chief Executive Officer before dealing in South Ocean's shares to protect themselves against any possible and unintentional contravention of the insider trading laws and stock exchange regulations.

In terms of the JSE Listing Requirements, dealings in the company's securities by directors, their immediate family and associates are announced on SENS. The group strictly adheres to the code relating to insider trading as set out in terms of the JSE Listing Requirements. The group also ensures that all its policies are aligned to the Security Service Act, which regulates such activities.

None of the directors dealt in any of the company's securities during the financial year.

## Relationship with stakeholders and investors

The group continues to promote dialogue with its shareholders, business analysts, business advisers and all other stakeholders. These include timeous, honest, relevant and accessible announcements and circulars to the shareholders in accordance with the JSE Listing Requirements. All shareholders are encouraged to attend the annual general meeting and to ask questions about the group, its results and prospects.

The group encourages stakeholders to approach executive directors whenever they wish.

The group also subscribes to the principle of fair communication and disclosure. There are ongoing interactions between the executive management team and a wide range of institutional investors and analysts and potential investors during the non-closed periods. These interactions include one-on-one meetings and presentations at institutional road shows. It presents results to the investor community in Johannesburg and Cape Town twice a year. The interim and final results are also published in two newspapers, in English and Afrikaans, on the company's web site and on SENS. There are regular engagements with the media in various methods to ensure fair communication through media liaison.

## Human resources development

The group's philosophy is to respect individuals regardless of race, gender or creed and to ensure that all the individuals are afforded equal opportunities for development, personal growth and promotion. Appropriate forums are in place to ensure good people relationships throughout the organisation by serving as vehicles for information-sharing, consultation and dispute resolution. Group training programmes are outcomes-based and are designed to reinforce the required knowledge and skills.

## Affirmative action

The group is an equal opportunity employer and will not countenance discrimination on the basis of ethnicity or gender. A number of programmes are in place to ensure that the group's employee profile will become more representative of the demographics of the region in which it operates whilst maintaining the group's high standards.

## Worker participation

The group employs a variety of participative structures to deal with issues that affect employees directly and materially. These include collective bargaining mechanisms, regular shop steward and trade union meetings, as well as equity skills and development meetings, structures to drive productivity improvements, safety committees and other participative forums. These structures are designed to achieve good employer/employee relations through effective sharing of relevant information, consultation and the identification and resolution of conflict.

## Going concern

The directors have satisfied themselves that the group is in a sound financial position and has adequate resources to continue to operate effectively for the foreseeable future. Accordingly, they are satisfied that it is appropriate to adopt the going concern basis in preparing the financial statements.

# Remuneration Committee report



**This report provides an overview and understanding of the group's remuneration philosophy and practices. It deals mostly with the remuneration of the executive directors and senior management.**

## Remuneration policy

The key principles of the remuneration policy are summarised as follows:

### Director and senior management remuneration

The Remuneration Committee recommends remuneration for directors and senior executives to the board.

*Non-executive director remuneration*

Non-executive directors' remuneration is subject to shareholder approval at the Annual General Meeting. The group's philosophy in respect of non-executive remuneration is to pay market-related fees, as determined by market surveys, while taking into account the contribution of the individual directors to the group and the demands placed on them in respect of committee work.

*Executive directors and senior management remuneration*

The remuneration philosophy of the group is to pay managers and staff a market-related remuneration based on responsibility. In principle, and in terms of remuneration policy in place in all group companies, above-average remuneration is only earned by employees who demonstrate a preparedness to accept the challenge of the enterprise and who excel in the achievement of the objectives of the enterprise.

Senior executives are entitled to a remuneration dispensation comprising four components: a guaranteed remuneration package, a performance-linked bonus, short-term profit sharing bonus, and a long-term incentive scheme.

The following are the main features of this dispensation:

*The guaranteed remuneration package*

An all inclusive cost-to-company package is determined for each employee based on annual market-worth of the required position, assuming that performance targets are met and that the targets are at a higher level than in the previous year. The guaranteed pay is calculated at between 75% and 80% for directors and 92,4% for senior management of total cost-to-company package.

*The performance bonus*

Each senior executive is required to enter into a performance contract with the supervisor that he or she reports to. These performance contracts define individual key performance areas that are linked to the strategic objectives of the business unit. The contracts and the performance ratings are reviewed by executive directors and reported to the Remuneration Committee, giving it better insight into how risks are being managed and controlled internally within each business unit, and into succession planning problems at both the holding company and subsidiary levels. The performance ratings in terms of this performance management system will be the basis for an annual performance bonus. The performance bonus amount is calculated for directors at between 20% and 25% and for senior management at 7,6% of total cost-to-company package.

*The profit-sharing bonus*

Senior executive and senior line managers employed by the company will share in profit share pools in the event that earnings (profit before taxation), exceed the target earnings as proposed by the Remuneration Committee and approved by the board for the financial year.

The target earnings as defined will be the inflation adjusted three-year-moving average of earnings for the past three years multiplied by the growth factor equal to expected inflation as defined. The targets for 2010 were negotiated targets to make some allowance for the downturn in the economy. It is intended that targets from 2011 onwards will be based on inflation-adjusted three-year moving averages of earnings for the past three years. For the purposes of the profit-sharing bonus scheme, a nominated percentage of excess earnings for the holding company and for each subsidiary company, ranging between 10% and 20% in 2010, is allocated to profit-share pools and shared by eligible senior executives in the subsidiary company or holding company in proportion to their respective guaranteed remuneration for the year.

*The long-term incentive scheme*

A long-term incentive plan is in place with effect from 1 January 2009. The objective of this plan is to both align the interests of top management with those of shareholders and to retain the key people in top management who are responsible for leading the enterprise towards the achievement of organisational goals.

The plan is a share appreciation rights scheme in terms of which participants will receive a cash bonus based on equity growth. The scheme does not confer any rights on employees to acquire, hold or subscribe for shares at any time, and does not in any way dilute the shareholdings of existing or future shareholders.

The following are the main features of this long-term incentive scheme:

- Separate schemes have been established for the holding company and for each subsidiary company;
- Share appreciation rights have been defined for the holding company and for each subsidiary company in relation to the issued shares of that company at the commencement of the financial year, each right relating to one issued share of that company;
- In the case of the holding company scheme, eligible participants were allocated rights in relation to a certain value of ordinary shares, based on the volume-weighted quoted share price of the holding company during the month preceding the allocation. They will receive a cash bonus at the end of a defined holding period equal to the difference between the value of those shares at the beginning and end of the holding period;
- In the case of each subsidiary company, eligible participants will be allocated rights as follows:

– In relation to a certain value of shares, to the extent of 75%, based on the shares of that subsidiary company;
– In terms of a valuation of the shares of that subsidiary company which is in turn based on its financial results in its last three financial years;
– As to 25%, based on the shares of the holding company, in terms of the volume-weighted quoted share price during the month preceding the allocation, a cash bonus at the end of a defined holding period equal to the difference between the value of those shares at the beginning and end of the holding period; and

- The holding period of allocations will be three years, which may be extended to four years at the option of the participant. The holding period for the directors only in respect of the 2009 allocation of rights is two years, which may however be extended to either three or four years at the option of the participant. The quantum of the allocations will be in the range between 33,3% and 125% of the annual guaranteed pay of each participant in 2009, and between 33,3% and 83,3% in the years following during the continuation of this plan.

*Annual review by the Remuneration Committee*

In relation to all group executive directors, including the executive directors of each subsidiary company, the cost-to-company package is reviewed annually by the Remuneration Committee based on market information and individual competency assessments.

In addition, the Remuneration Committee is mandated to annually review the remuneration policies which affect all group senior executives and senior line managers, being the members of an executive committee or management committee.

## Executive directors' remuneration from related companies

Executive directors' remuneration paid for 2010 is as follows:

| Company | **2010 R'000** | 2009 R'000 |
|---|---|---|
| South Ocean Holdings Limited | **6 958** | 6 218 |
| Radiant Group (Pty) Limited | **–** | 2 442 |
| South Ocean Electric Wire Company (Pty) Limited | **1 954** | 1 291 |

Details of the remuneration of individual directors are listed in note 22 in the financial statements section of this report.

## Non-Executive directors' remuneration

The fees for non-executive directors during 2010 were as follows:

| | **Fixed fee Per annum 2010 R'000** |
|---|---|
| Chairman of the board | **289 000** |
| Member of the board | **108 000** |
| Chairman of the Audit and Risk Management Committee | **162 000** |
| Member of the Audit and Risk Management Committee | **35 000** |
| Chairman of the Remuneration Committee | **50 000** |
| Member of the Remuneration Committee | **35 000** |

## Interest of directors in share capital of the company

The details of the individual directors' interest in share capital of the company are disclosed in the Director's Report on page 43.

## Interest of directors in contracts

The directors have certified that they had no material interest in any transaction of any significance with the company or any of its subsidiaries.

## Gains on share appreciation scheme

The interest of the directors and senior management in the share appreciation-based equity units payment is shown in the table below:

| | Number of equity units 2009 000's | Equity units exercised/ceded | **Number of equity units 2010 000's** | Price on allocation date R | Market price on exercise date R | Expiry date |
|---|---|---|---|---|---|---|
| **South Ocean Holdings – share-based payment scheme** | | | | | | |
| EHT Pan | | | | | | |
| 1 Jan 2009 | 2 870 | – | **2 870** | 1,43 | 2,05 | Dec 2010 |
| 1 Jan 2010 | | – | **1 890** | 1,50 | – | Dec 2012 |
| PJM Ferreira | | | | | | |
| 1 Jan 2009 | 471 | – | **471** | 1,43 | 2,05 | Dec 2010 |
| 1 Jan 2010 | | – | **310** | 1,50 | – | Dec 2012 |
| JP Bekker | | | | | | |
| 1 Jan 2009 | 1 563 | – | **1 563** | 1,43 | 2,05 | Dec 2010 |
| 1 Jan 2010 | | – | **1 029** | 1,50 | – | Dec 2012 |
| **South Ocean Electric Wire Company – share-based payment scheme** | | | | | | |
| PJM Ferreira | | | | | | |
| 1 Jan 2009 | 121 | – | **121** | 16,63 | 25,76 | Dec 2010 |
| 1 Jan 2010 | | – | **55** | 25,66 | – | Dec 2012 |

## Committee members

The members during the year were:

KH Pon – Chairperson
EG Dube – Member
HL Li – Member

# Audit and Risk Management Committee report

**We incorporate in this annual report our report on the activities of the Audit and Risk Management Committee for the 2010 financial year.**

The Audit and Risk Management Committee is charged with responsibility for evaluating the independence, effectiveness and performance of the external auditors, and for examining and reviewing on an annual and interim basis, of financial controls, risk management, operating environment in general and evaluation the competence of the financial personnel, with specific emphasis on the Chief Financial Officer.

## Composition

This Audit and Risk Management Committee consists of three independent non-executive directors and one non-executive director who meet at least three times a year to discharge their responsibilities as detailed in the charter and as assigned by the board from time to time. The committee has during the year met in accordance with its annual plan with all the members in attendance and confirms that it has discharged its oversight responsibilities. The attendance register is included in the corporate governance report on page 28.

## External auditors

As required by the Code and the JSE Listings requirement, the Audit and Risk Management Committee has evaluated the independence and the competence of the external auditors and is confident that they are competent to carry out their functions and that they are independent as required by the Companies Act.

The external auditors perform only the functions related to external audit services. Any request for other audit services will only be approved by the Audit and Risk Management Committee if it will not jeopardise their independence.

The Audit and Risk Management Committee has agreed to an audit fee for the 2010 financial year which it considers to be appropriate and in line with the work undertaken. The fee is disclosed in the notes to the financial statements.

Being satisfied by the work of the external auditors, the Audit and Risk Management Committee has recommended to the board and shareholders the re-appointment of PricewaterhouseCoopers Inc. as the auditors and Ms P Pope as the designated auditor for the current year.

## Review of the annual and interim accounts

The Audit and Risk Management Committee, with the assistance of the external auditors, has reviewed the annual and interim financial information, together with all the other related schedules to ensure that they comply with IFRS and that the accounting policies and principles are relevant and that the quality of the information is adequate for it to be relied upon. The Audit and Risk Management Committee has met with the external auditors to discuss the results of its examinations, without management present.

## Internal auditors

Deloitte and Touche has performed the internal audit function on behalf of the Audit and Risk Management Committee during the 2010 financial year. Deloitte and Touche was charged with conducting its responsibility as internal auditors and to report to the Audit and Risk Management Committee. The committee has met the internal auditor to discuss the results of its examinations, without management present.

The Audit and Risk Management Committee confirms that the internal audit function has had unrestricted access to the committee and its chairperson.

## Financial controls

The Audit and Risk Management Committee uses structures put in place by management to evaluate the adequacy of the financial control. Both internal and external auditors have been retained to evaluate the adequacy of the financial controls albeit for different reasons. They have issued their reports, none of which reported any exceptions.

The Audit and Risk Management Committee is thus satisfied that the controls in place are adequate.

## Risk management

Management regularly evaluates the group risks through an ongoing system for identifying, evaluating and managing significant risks. Adequate systems of internal control provide reasonable, though not absolute, assurance to enable group officers to effectively manage risk and achieve business objectives.

In fulfilling its duties, the Audit and Risk Management Committee appointed Deloitte and Touche to provide risk and internal audit services to the group on a consulting basis. The plan is to ensure that all the business cycles of the entity are covered within a three-year cycle. During the year, Deloitte and Touche carried out assessments as required and issued their report, which does not contain any exceptions.

The Audit and Risk Management Committee is confident that the controls and processes are adequate to meet the stated objectives and that these controls are adequate to manage the group's risks proactively.

## Competency of the Chief Financial Officer

The Audit and Risk Management Committee has reviewed the performance, appropriateness and expertise of the Chief Financial Officer and is satisfied that he is properly equipped to carry out the duties required of him and that he is suitable to be appointed as the financial director in terms of the JSE Listing Requirements.

## Operating environment

The Audit and Risk Management Committee is satisfied that the operating environment under which the financial statements are produced is satisfactory and can be relied upon to produce accurate and fair financial statements. The technological resources and information technology environment is continuously being evaluated for its redundancy, relevance, security and sustainability to ensure that all these systems can be relied upon to produce meaningful management information.

## Information technology

There is a policy in place regarding the use and safeguarding of the information systems and networks.

The information technology environment risks are continuously being evaluated and there are proper security measures, back-up procedures and access controls in place to ensure that the information technology environment function properly and can be relied on. Disaster recovery plans are being implemented for any unforeseen circumstances to ensure the minimum disruption as any interruption in the information technology system can have a material impact on the business.

## Regulatory compliance

The committee reports that to its knowledge, the company and its subsidiaries are in compliance with all the legislative provisions applicable to its operating environment. In the forthcoming financial year, the board and its committees will continue to monitor the establishment and implementation of the legal and compliance monitoring processes and policies.

## Integrated reporting

Following the review of the reports submitted by management to the committee, the committee is satisfied that the integrated report complies with the Companies Act, International Financial Reporting Standards, JSE Listing Requirements for listed companies and has recommended to the board the approval of the annual financial statements.

## Committee members

The committee members during the year were:

KH Pon – Chairperson
EG Dube – Member (Resigned, November 2010)
C Wu – Member
M Chong – Member
D Tam – Member (Appointed, November 2010)


RADIANT

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South Ocean HOLDINGS

www.southoceanholdings.com

# DIRECTORS' RESPONSIBILITIES AND APPROVAL

The directors are responsible for the preparation and maintenance of adequate accounting records, integrity and fair presentation of the company and group annual financial statements and related financial information included in this report.

The directors are required in terms of the Companies Act of South Africa to maintain adequate accounting records and are responsible for the content and integrity of the financial statements and related financial information included in this report. It is their responsibility to ensure that the financial statements fairly present the state of affairs of the company and group as at the end of the financial year and the results of its operations and cash flows for the period then ended, in conformity with International Financial Reporting Standards (IFRS). The external auditors are engaged to express an independent opinion on the financial statements.

The financial statements are prepared in accordance with IFRS and the Companies Act of South Africa. The directors consider that in preparing the financial statements they have used the most appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates. The directors are satisfied that the information contained in the financial statements fairly presents the results of operations for the year, and the financial position of the company and the group as at the end of the financial year.

For the directors to discharge their responsibilities, management has developed, and continues to maintain, a system of internal financial controls, which is well documented and regularly reviewed.

The directors, supported by the Audit and Risk Management Committee, are of the opinion, based on the information and explanations given by management, that the group's internal accounting controls are adequate, so that the financial records may be relied upon for preparing the annual financial statements and maintaining accountability for assets and liabilities. The directors believe that the group's assets are protected and used as intended in all material respects with appropriate authorisation. Nothing has come to the attention of the directors to indicate that any material breakdown in the functioning of these controls, procedures and systems occurred during the financial year.

The directors acknowledge that they are ultimately responsible for the system of internal financial control established by the group and place considerable importance on maintaining a strong control environment. To enable the directors to meet these responsibilities, the board sets standards for internal control aimed at reducing the risk of error or loss 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 group and all employees are required to maintain the highest ethical standards in ensuring the group's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the group is on identifying, assessing, managing and monitoring all known forms of risk across the group. While operating risk cannot be fully eliminated, the group endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The financial statements have been prepared on the going concern basis, since the directors have no reason to believe that the group will not be a going concern in the foreseeable future based on forecast and available cash resources.

The directors have reviewed the group's cash flow forecast for the year to 31 December 2011 and, in the light of this review and the current financial position, they are satisfied that the group has or has access to adequate resources to continue in operational existence for the foreseeable future.

The external auditors are responsible for independently reviewing and reporting on the group and company's financial statements. The financial statements have been examined by the group's external auditors and their report is presented on page 42.

The financial statements set out on pages 43 to 88, which have been prepared on the going concern basis, were approved by the board on 28 February 2011 and were signed on its behalf by:

**EG Dube**
*Chairman*
28 February 2011

**EHT Pan**
*Chief Executive Officer*

# CERTIFICATE BY THE COMPANY SECRETARY

In terms of Section 268 G(d) of the Companies Act of South Africa, as amended, I certify that in respect of the year ended 31 December 2010, the company lodged with the Registrar all such returns as are required of a public company in terms of the Companies Act of South Africa and that all such returns are true, correct and up to date.

**WT Green**
*Company Secretary*
Johannesburg
28 February 2011

# INDEPENDENT AUDITOR'S REPORT

To the members of South Ocean Holdings Limited

We have audited the group annual financial statements and annual financial statements of South Ocean Holdings Limited, which comprise the consolidated and separate statements of financial position as at 31 December 2010, and the consolidated and separate statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes, and the directors' report, as set out on pages 43 to 88.

## DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The company's directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and in the manner required by the Companies Act of South Africa, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

## AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## OPINION

In our opinion, the financial statements present fairly, in all material respects, the consolidated and separate financial position of South Ocean Holdings Limited as at 31 December 2010, and its consolidated and separate financial performance and its consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards, and in the manner required by the Companies Act of South Africa.

PricewaterhouseCoopers Inc.

**PricewaterhouseCoopers Inc.**
Director: P Pope
*Registered Auditor*
Johannesburg
28 February 2011

# DIRECTORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 2010

The directors submit their report for the year ended 31 December 2010.

## GENERAL REVIEW

### Main business and operations

South Ocean Holdings Limited is the holding company of a group of four operating subsidiary companies: South Ocean Electric Wire Company (Proprietary) Limited, an electrical cable manufacturing company, Radiant Group (Proprietary) Limited, an importer and distributor of light fittings, lamps and electrical accessories, Anchor Park Investments 48 (Proprietary) Limited, a property investment company, Radiant Matla Renewable Energy Corporation (Proprietary) Limited, importer and distributor of solar panels.

## FINANCIAL POSITION

The financial position, results of operations and cash flows of the company and the group are adequately reflected in the attached financial statements.

## SHARE CAPITAL

No shares were issued during the year under review (2009: None). Details of the authorised and issued share capital and premium are stated in note 11.

## SPECIAL RESOLUTIONS

At the annual general meeting of the company held on 4 June 2010, shareholders approved the following special resolution:

- the company or any of its subsidiaries be and is hereby authorised, by way of a general approval, to acquire ordinary shares issued by the company, in terms of Section 85(2) and 85(3) of the Companies Act (Act 61 of 1973), as amended (the Companies Act) and in accordance with Article 10.1.7 of the company's Articles of Association and in terms of the JSE Listings Requirements, provided that:
  - any such acquisition of ordinary shares shall be effected through the order book operated by the JSE trading system and done without any prior understanding or arrangement between the company and the counterparty;
  - this general authority shall be valid until the company's next annual general meeting, provided that it shall not extend beyond 15 (fifteen) months from the date of passing of this special resolution;
  - an announcement prepared in accordance with paragraph 11.27 of the JSE Listings Requirements will be published as soon as the company or any of its subsidiaries has acquired ordinary shares constituting, on a cumulative basis, 3% of the number of ordinary shares in issue prior to the acquisition pursuant to which the aforesaid 3% threshold is reached and for each 3% in aggregate acquired thereafter, containing full details of such acquisitions;
  - acquisitions of shares in aggregate in any one financial year may not exceed 20% of the company's ordinary issued share capital as at the date of passing of this special resolution;
  - in determining the price at which ordinary shares issued by the company are acquired by it or any of its subsidiaries in terms of this general authority, the maximum premium at which such ordinary shares may be acquired will be 10% of the weighted average of the market value at which such ordinary shares are traded on the JSE as determined over the five trading days immediately preceding the date of repurchase of such ordinary shares by the company or any of its subsidiaries;
  - the company has been given authority by its Articles of Association;
  - at any point in time, the company may only appoint one agent to effect any repurchase on the company's behalf;
  - the company's sponsor must confirm in terms of paragraph 11.26 (d) of the JSE Listings Requirements, the adequacy of the company's working capital for purposes of undertaking the repurchase of shares in writing to the JSE before entering the market to proceed with the repurchase;
  - the company and/or its subsidiaries not repurchasing any shares during a prohibited period as defined in paragraph 3.67 of the JSE Listings Requirements, unless a repurchase programme is in place, where dates and quantities of shares to be traded during the prohibited period are fixed and full details of the programme have been disclosed in an announcement over the Securities Exchange News Services (SENS) prior to the commencement of the prohibited period; and
  - before entering the market to effect the general repurchase, the directors, having considered the effects of the repurchase of the maximum number of ordinary shares in terms of the aforegoing general authority, will ensure that for a period 12 (twelve) months after the date of the repurchase in question:
    - the company and the group will be able, in the ordinary course of business, to pay its debts;
    - the consolidated assets of the company and the group, fairly valued in accordance with International Financial Reporting Standards on a basis consistent with the financial year ended 31 December 2009, will exceed the consolidated liabilities of the company and the group; and
    - the company and the group's ordinary share capital, reserves and working capital will be adequate for ordinary business purposes.

# DIRECTORS' REPORT continued

FOR THE YEAR ENDED 31 DECEMBER 2010

## BORROWING LIMITATIONS

In terms of the Articles of Association of the company, the directors may exercise their right to acquire funding as they consider appropriate. At 31 December 2010 the group's borrowing powers were unlimited.

## SHARE INCENTIVE SCHEME

The group has implemented a long-term incentive plan for identified senior management in each of the operating entities. Details of the scheme and rights allotted are disclosed in note 15.

## DIVIDENDS

The board of directors did not declare a dividend for the year ended 31 December 2010 (2009: R0,03 per ordinary share amounting to R4 691 000).

## DIRECTORS

The directors of the company during the year and to the date of this report are as follows:

| **Name** | **Nationality** |
|---|---|
| Independent non-executive | |
| EG Dube (Chairman) | |
| KH Pon | |
| M Chong (Appointed 1 April 2010) | |
| DL Tam (Appointed 25 November 2010) | |
| JL Law (Resigned 28 February 2010) | |
| | |
| Non-executive | |
| CH Pan (Alternate) | Taiwanese |
| HL Li | Taiwanese |
| CY Wu | Taiwanese |
| | |
| Executive | |
| EHT Pan (Chief Executive Officer) | Brazilian |
| JP Bekker (Chief Financial Officer) | |
| PJM Ferreira (Chief Operating Officer) (Alternate, Appointed 4 August 2010) | |

## SECRETARY

The secretary of the company is WT Green of:

| | |
|---|---|
| Business address | 21 West Street<br>Houghton<br>2198 |
| Postal address | PO Box 123738<br>Alrode<br>1451 |

# DIRECTORS' REPORT continued

FOR THE YEAR ENDED 31 DECEMBER 2010

## INTEREST IN SUBSIDIARIES

Details of the company's investment in subsidiaries are set out in notes 5 and 36 to the financial statements.

## DIRECTORS' INTERESTS IN SHARE CAPITAL

The interests of directors in the issued share capital of the company as at 31 December 2010 were as follows:

| | Number of ordinary shares | | | |
|---|---|---|---|---|
| Director | Direct beneficial | Indirect beneficial | Total | Percentage of issued share capital % |
| **2010** | | | | |
| JP Bekker | **491 807** | **–** | **491 807** | **0,31** |
| PJM Ferreira | **1 412 880** | **–** | **1 412 880** | **0,90** |
| EHT Pan | **4 728 238** | **27 7 34 563** | **32 462 801** | **20,76** |
| | **6 632 925** | **27 734 563** | **34 367 488** | **21,97** |
| **2009** | | | | |
| JP Bekker | 491 807 | – | 491 807 | 0,31 |
| EHT Pan | 4 728 238 | 27 734 563 | 32 462 801 | 20,76 |
| | 5 220 045 | 27 734 563 | 32 954 608 | 21,07 |

| Directors' interests in long-term incentive plan | Number of share options | Value R |
|---|---|---|
| **2010** | | |
| JP Bekker | **2 591 553** | **1 475 652** |
| PJM Ferreira | **956 906** | **1 576 386** |
| EHT Pan | **4 759 610** | **2 710 163** |
| | **8 308 069** | **5 762 201** |
| **2009** | | |
| JP Bekker | 1 562 566 | 974 073 |
| EHT Pan | 2 869 786 | 1 788 969 |
| | 4 432 352 | 2 763 042 |

## EVENTS AFTER THE REPORTING PERIOD

The directors are not aware of any other matter or circumstance arising since the end of the financial year, not otherwise dealt with in the financial statements, which would significantly affect the operations of the company and the group or the results of those operations.

## AUDITORS

PricewaterhouseCoopers Inc. will continue in office in accordance with section 270(2) of the Companies Act.

# STATEMENTS OF FINANCIAL POSITION

AS AT 31 DECEMBER 2010

| | | Group | | Company | |
|---|---|---|---|---|---|
| | | **2010** | 2009 | **2010** | 2009 |
| | **Notes** | **R'000** | R'000 | **R'000** | R'000 |
| ASSETS | | | | | |
| **Non-current assets** | | | | | |
| Property, plant and equipment | 3 | **259 642** | 240 499 | **10** | – |
| Intangible assets | 4 | **343 991** | 346 430 | **–** | – |
| Investments in subsidiaries | 5 | **–** | – | **1 016 463** | 1 016 463 |
| | | **603 633** | 586 929 | **1 016 473** | 1 016 463 |
| **Current assets** | | | | | |
| Inventories | 7 | **188 579** | 146 664 | **–** | – |
| Trade and other receivables | 8 | **131 476** | 124 003 | **3 751** | 7 661 |
| Amounts owing by group companies | 9 | **–** | – | **4 216** | – |
| Taxation receivable | | **1 353** | 1 948 | **–** | – |
| Cash and cash equivalents | 10 | **44 600** | 64 635 | **1 418** | 1 482 |
| | | **366 008** | 337 250 | **9 385** | 9 143 |
| **Total assets** | | **969 641** | 924 179 | **1 025 858** | 1 025 606 |
| EQUITY AND LIABILITIES | | | | | |
| EQUITY | | | | | |
| Share capital and premium | 11 | **441 645** | 441 645 | **1 118 864** | 1 118 864 |
| Reserves | 12 | **(706)** | – | **–** | – |
| Retained earnings/(accumulated loss) | | **295 912** | 248 127 | **(105 173)** | (105 173) |
| | | **736 851** | 689 772 | **1 013 691** | 1 013 691 |
| LIABILITIES | | | | | |
| **Non-current liabilities** | | | | | |
| Interest bearing borrowings | 13 | **71 513** | 102 518 | **–** | – |
| Deferred tax | 14 | **28 566** | 26 818 | **–** | – |
| Share-based payments | 15 | **2 370** | – | **1 423** | – |
| | | **102 449** | 129 336 | **1 423** | – |
| **Current liabilities** | | | | | |
| Trade and other payables | 16 | **77 446** | 58 995 | **4 978** | 3 815 |
| Interest bearing borrowings | 13 | **35 526** | 35 837 | **–** | – |
| Amounts owing to group companies | 9 | **–** | – | **2 999** | 8 096 |
| Taxation payable | | **1 848** | 4 380 | **–** | – |
| Dividend payable | | **4** | 4 | **4** | 4 |
| Derivative financial instrument | 17 | **680** | – | **–** | – |
| Share-based payments | 15 | **5 010** | – | **2 763** | – |
| Bank overdraft | 10 | **9 827** | 5 855 | **–** | – |
| | | **130 341** | 105 071 | **10 744** | 11 915 |
| **Total liabilities** | | **232 790** | 234 407 | **12 167** | 11 915 |
| **Total equity and liabilities** | | **969 641** | 924 179 | **1 025 858** | 1 025 606 |

# STATEMENTS OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2010

| | | Group | | Company | |
|---|---|---|---|---|---|
| | Notes | **2010 R'000** | 2009 R'000 | **2010 R'000** | 2009 R'000 |
| Revenue | 18 | **1 138 130** | 957 972 | **20 855** | 12 680 |
| Cost of sales | 20 | **(900 285)** | (745 756) | **–** | – |
| **Gross profit** | | **237 845** | 212 216 | **20 855** | 12 680 |
| Other operating income | 19 | **7 344** | 12 098 | **–** | – |
| Administration expenses | 20 | **(64 370)** | (54 953) | **(15 849)** | (12 267) |
| Distribution expenses | 20 | **(27 927)** | (21 410) | **–** | – |
| Other operating expenses | 20 | **(64 395)** | (87 792) | **–** | (641) |
| **Operating profit/(loss)** | | **88 497** | 60 159 | **5 006** | (228) |
| Finance income | 23 | **1 701** | 2 843 | **154** | 36 |
| Finance costs | 24 | **(13 455)** | (18 531) | **–** | – |
| **Profit/(loss) before taxation** | | **76 743** | 44 471 | **5 160** | (192) |
| Taxation | 25 | **(24 267)** | (12 814) | **(469)** | – |
| **Profit/(loss) for the year** | | **52 476** | 31 657 | **4 691** | (192) |
| **Other comprehensive income:** | | | | | |
| Exchange differences on translating foreign operations | 12 | **(706)** | – | **–** | – |
| **Total comprehensive income/(loss) attributable to equity holders of the company** | | **51 770** | 31 657 | **4 691** | (192) |
| **Earnings per share** | | | | | |
| **Per share information** | | | | | |
| Basic and diluted earnings per share (cents) | 26 | **33,6** | 20,2 | | |
| Dividends per share (cents) | 27 | **–** | 3,0 | | |

# STATEMENTS OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2010

| | Share capital R'000 | Share premium R'000 | Total share capital R'000 | Foreign currency translation reserve R'000 | Retained earnings/ (accumulated loss) R'000 | Total equity R'000 |
|---|---|---|---|---|---|---|
| **Group** | | | | | | |
| **Balance at 1 January 2009** | 1 274 | 440 371 | 441 645 | – | 216 470 | 658 115 |
| Changes in equity | | | | | | |
| Total comprehensive income for the year | – | – | – | – | 31 657 | 31 657 |
| Total changes | – | – | – | – | 31 657 | 31 657 |
| **Balance at 1 January 2010** | **1 274** | **440 371** | **441 645** | **–** | **248 127** | **689 772** |
| Changes in equity | | | | | | |
| Total comprehensive income for the year | **–** | **–** | **–** | **(706)** | **52 476** | **51 770** |
| Dividends | **–** | **–** | **–** | **–** | **(4 691)** | **(4 691)** |
| Total changes | **–** | **–** | **–** | **(706)** | **47 785** | **47 079** |
| **Balance at 31 December 2010** | **1 274** | **440 371** | **441 645** | **(706)** | **295 912** | **736 851** |
| Notes | 11 | 11 | 11 | 12 | | |
| **Company** | | | | | | |
| **Balance at 1 January 2009** | 1 564 | 1 117 300 | 1 118 864 | – | (104 981) | 1 013 883 |
| Changes in equity | | | | | | |
| Total comprehensive income for the year | – | – | – | – | (192) | (192) |
| Total changes | – | – | – | – | (192) | (192) |
| **Balance at 1 January 2010** | **1 564** | **1 117 300** | **1 118 864** | **–** | **(105 173)** | **1 013 691** |
| Changes in equity | | | | | | |
| Total comprehensive income for the year | **–** | **–** | **–** | **–** | **4 691** | **4 691** |
| Dividends | **–** | **–** | **–** | **–** | **(4 691)** | **(4 691)** |
| Total changes | **–** | **–** | **–** | **–** | **–** | **–** |
| **Balance at 31 December 2010** | **1 564** | **1 117 300** | **1 118 864** | **–** | **(105 173)** | **1 013 691** |
| Notes | 11 | 11 | 11 | 12 | | |

# STATEMENTS OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2010

| | | Group | | Company | |
|---|---|---|---|---|---|
| | Notes | **2010 R'000** | 2009 R'000 | **2010 R'000** | 2009 R'000 |
| **Cash flows from operating activities** | | | | | |
| Cash generated from/(used in) operations | 28 | **83 763** | 151 642 | **14 265** | (3 763) |
| Finance income | | **1 701** | 2 843 | **154** | 36 |
| Finance costs | 29 | **(13 455)** | (19 550) | **–** | – |
| Tax paid | 30 | **(24 456)** | (19 931) | **(469)** | – |
| **Net cash from operating activities** | | **47 553** | 115 004 | **13 950** | (3 727) |
| **Cash flows from investing activities** | | | | | |
| Acquisition of property, plant and equipment | 3 | **(33 210)** | (27 045) | **(10)** | – |
| Acquisition of intangible assets | 4 | **(2 086)** | (845) | **–** | – |
| Movement of group loans | | **–** | – | **(9 313)** | 5 150 |
| Proceeds on disposal of property, plant and equipment | 32 | **449** | 14 760 | **–** | – |
| **Net cash from investing activities** | | **(34 847)** | (13 130) | **(9 323)** | 5 150 |
| **Cash flows from financing activities** | | | | | |
| Repayment of interest bearing borrowings | | **(31 316)** | (36 864) | **–** | – |
| Dividends paid | 31 | **(4 691)** | – | **(4 691)** | – |
| **Net cash from financing activities** | | **(36 007)** | (36 864) | **(4 691)** | – |
| **Total cash and cash equivalents movement for the year** | | **(23 301)** | 65 010 | **(64)** | 1 423 |
| Cash and cash equivalents at the beginning of the year | | **58 780** | (6 230) | **1 482** | 59 |
| Effects of exchange rate movement on cash balances | | **(706)** | – | **–** | – |
| **Total cash and cash equivalents at the end of the year** | 10 | **34 773** | 58 780 | **1 418** | 1 482 |

# ACCOUNTING POLICIES

FOR THE YEAR ENDED 31 DECEMBER 2010

## 1. PRESENTATION OF FINANCIAL STATEMENTS

### General information

South Ocean Holdings Limited (the company) and its subsidiaries (together 'the group') manufacture and distribute electrical wires, import and distribute lighting and electrical equipment and undertake rental of property.

The company is a public limited company which is listed on the Johannesburg Stock Exchange and is incorporated in South Africa.

### Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

### Basis of preparation

The consolidated financial statements of South Ocean Holdings Limited have been prepared in accordance with International Financial Reporting Standards (IFRS), IFRIC Interpretations and the South African Companies Act. The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets, and financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 1.

IFRS 3 requires that an entity formed to issue equity instruments to effect a business combination cannot be identified as the acquirer and therefore the operating entity has been identified as the acquirer. As a result, the principle of reverse acquisition has been applied to a transaction undertaken in 2007 when the group was established. The principle has been applied in the preparation of the group financial statements. The carrying value of assets and liabilities of South Ocean Electric Wire Company (Proprietary) Limited, the operating company, at the pre-combination date have been used as those of the group.

### 1.1 Consolidation

*Subsidiaries*

Subsidiaries are all entities (including special purpose entities) over which the group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the group. They are deconsolidated from the date that control ceases. The purchase method of accounting is used to account for the acquisition of subsidiaries by the group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the statement of comprehensive income.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the group.

Non-controlling interests in the net assets of consolidated subsidiaries are identified and recognised separately from the group's interest therein, and are recognised within equity. Losses of subsidiaries attributable to non-controlling interests are allocated to the non-controlling interest even if this results in a debit balance being recognised for non-controlling interest.

# ACCOUNTING POLICIES continued

FOR THE YEAR ENDED 31 DECEMBER 2010

## 1. PRESENTATION OF FINANCIAL STATEMENTS continued

### 1.1 Consolidation continued

*Interests in subsidiaries*

Interests in subsidiaries are classified as non-current assets and are stated in the financial statements of the company at cost, less appropriate impairments. Where the value of investments is considered to be below the carrying value and the diminution of value is considered not to be of a temporary nature, the investments are written down to the expected realisable value.

### 1.2 Property, plant and equipment

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

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

Property, plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the company and group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the statement of comprehensive income during the financial period in which they are incurred.

Land is not depreciated. Depreciation on other assets is calculated using the straight-line method to allocate their cost amounts to their residual values over their estimated useful lives, as follows:

| Item | Average useful life |
|---|---|
| Buildings | 50 years |
| Plant and machinery | 3 – 20 years |
| Furniture and equipment | 3 – 10 years |
| Motor vehicles | 5 – 7 years |
| Computer software | 3 – 6 years |

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within 'operating expenses' in the statement of comprehensive income.

### 1.3 Leases

*Operating leases*

Operating leases are those leases where substantially all the risks and rewards associated with ownership of an asset are not transferred from the lessor to the group as lessee. Costs of leasing property, plant and equipment held under operating leases are charged to the statement of comprehensive income on a straight-line basis over the period of the lease. The cost of the assets and the outstanding commitments are not recorded in the statement of financial position. When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalties is recognised as an expense in the period in which the termination takes place.

### 1.4 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

## 1. PRESENTATION OF FINANCIAL STATEMENTS continued

### 1.4 Share capital continued

Where any group company purchases the company's equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes), is deducted from equity attributable to the company's equity holders until the shares are cancelled or reissued. Where such shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the company's equity holders.

### 1.5 Translation of foreign currencies

*Foreign currency transactions*

*(a) Functional and presentation currency*

Items included in the financial statements of each of the group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in South African Rands, which is the company's functional and the group's presentation currency.

*(b) Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of comprehensive income.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the statement of comprehensive income within 'finance income or cost'. All other foreign exchange gains and losses are presented in the statement of comprehensive income within 'operating expenses'.

*(c) Group companies*

The results and financial position of all the group entities (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(a) Assets and liabilities for each reporting date presented are translated at the closing rate at the reporting date;

(b) Income and expenses for each statement of comprehensive income are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and

(c) All resulting exchange differences are recognised as a separate component of equity.

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

### 1.6 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the first in, first out (FIFO) method. The cost of finished goods and work in progress comprises design costs, raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

### 1.7 Intangible assets

*(a) Goodwill*

Goodwill represents the excess of the cost of an acquisition over the fair value of the group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in 'intangible assets'. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

# ACCOUNTING POLICIES continued

FOR THE YEAR ENDED 31 DECEMBER 2010

## 1. PRESENTATION OF FINANCIAL STATEMENTS continued

### 1.7 Intangible assets continued

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose identified according to operating segment.

*(b) Trade names and customer relationships*

Trade names and customer relationships acquired in a business combination are recognised at fair value at the acquisition date. The trade names and customer relations have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method over the expected lives as follows:

| | |
|---|---|
| Trade names | 20 years |
| Customer relationships | 5 years |

*(c) Computer software*

Costs associated with maintaining computer software programmes are recognised as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the group are recognised as intangible assets when the following criteria are met:

- it is technically feasible to complete the software product so that it will be available for use;
- management intends to complete the software product and use or sell it;
- there is an ability to use or sell the software product;
- it can be demonstrated how the software product will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use or sell the software product are available; and
- the expenditure attributable to the software product during its development can be reliably measured.

Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

Computer software costs recognised as assets are amortised over their estimated useful lives, which does not exceed three years.

### 1.8 Impairment of non-financial assets

Assets that have an indefinite useful life, for example goodwill, are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value-in-use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non- financial assets, other than goodwill, that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

### 1.9 Financial instruments

*Classification*

The group classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables, and available-for-sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

*Recognition and measurement*

Regular purchases and sales of financial assets are recognised on the trade date – the date on which the group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed

## PRESENTATION OF FINANCIAL STATEMENTS continued

### 1.9 Financial instruments continued

*Recognition and measurement continued*

in the statement of comprehensive income. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value.

Loans and receivables are subsequently carried at amortised cost using the effective interest method.

Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in the statement of comprehensive income within 'other expenses/income' in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in the statement of comprehensive income as part of other income when the group's right to receive payments is established.

Interest on available-for-sale securities calculated using the effective interest method is recognised in the statement of comprehensive income as part of other income. Dividends on available-for-sale equity instruments are recognised in the statement of comprehensive income as part of other income when the group's right to receive payment is established.

*Offsetting financial instruments*

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

*Financial instruments designated as at fair value through profit or loss*

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets.

*Financial instruments designated as available-for-sale*

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless the investment matures or management intends to dispose of it within 12 months of the end of the reporting period.

*Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets. The group's loans and receivables comprise 'trade and other receivables' and cash and cash equivalents in the statement of financial position.

*Impairment of financial assets*

*(a) Assets carried at amortised cost*

The company and group assess at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The company and group first assess whether objective evidence of impairment exists.

The criteria that the company and group use to determine that there is objective evidence of an impairment loss include:

## PRESENTATION OF FINANCIAL STATEMENTS continued

### 1.9 Financial instruments continued

*Impairment of financial assets continued*

- Significant financial difficulty of the issuer or obligor;
- A breach of contract, such as a default or delinquency in interest or principal payments;
- The company and group, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;
- It becomes probable that the borrower will enter bankruptcy or other financial reorganisation;
- The disappearance of an active market for that financial asset because of financial difficulties; or
- Observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, including:
  (i) Adverse changes in the payment status of borrowers in the portfolio; and
  (ii) National or local economic conditions that correlate with defaults on the assets in the portfolio.

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The asset's carrying amount is reduced and the amount of the loss is recognised in the statement of comprehensive income. If a loan or a receivable has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the company and group may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the statement of comprehensive income.

*(b) Assets classified as available-for-sale*

The group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. For debt securities, the group uses the criteria referred to in (a) above. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the statement of comprehensive income – is removed from equity and recognised in the statement of comprehensive income. Impairment losses recognised in the statement of comprehensive income on equity instruments are not reversed through the statement of comprehensive income. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the statement of comprehensive income.

*Cash and cash equivalents*

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the statement of financial position.

*Trade and other receivables*

Trade receivables are amounts due from customers for products sold in the ordinary course of business. If collection is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

## 1. PRESENTATION OF FINANCIAL STATEMENTS continued

### 1.9 Financial instruments continued

*Trade and other payables*

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

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

*Borrowings*

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the statement of comprehensive income over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are classified as current liabilities unless the group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

*Derivative financial instruments*

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The group designates certain derivatives as either:

(a) Hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedge);

(b) Hedges of a particular risk associated with a recognised asset or liability or a highly probable forecast transaction (cash flow hedge); or

(c) Hedges of a net investment in a foreign operation (net investment hedge).

The group does not apply hedge accounting. Any gains or losses are taken directly to the statement of comprehensive income.

### 1.10 Provisions

Provisions are recognised when: the company and group have a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

### 1.11 Dividend distribution

Dividend distribution to the company's shareholders is recognised as a liability in the financial statements in the period in which the dividends are approved by the company's directors.

## 1. PRESENTATION OF FINANCIAL STATEMENTS continued

### 1.12 Employee benefits

*Defined contribution plans*

*(a) Pension obligations*

Group companies operate a number of defined contribution plans. The schemes are generally funded through payments to insurance companies or trustee administered funds, determined by periodic actuarial calculations. A defined contribution plan is a pension plan under which the group pays fixed contributions into a separate entity. The group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

*(b) Termination benefits*

Termination benefits are payable when employment is terminated by the group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The group recognises termination benefits when it is demonstrably committed to either: terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after the end of the reporting period are discounted to their present value.

*(c) Profit-sharing and bonus plans*

The group recognises a liability and an expense for bonuses and profit-sharing, based on a formula that takes into consideration the profit attributable to the company's shareholders after certain adjustments. The group recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

### 1.13 Revenue

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the group's activities. Revenue is shown net of value-added tax, returns, rebates and discounts and after eliminating sales within the group.

The group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and when specific criteria have been met for each of the group's activities as described below. The group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

*(a) Sales of goods*

Sales of goods are recognised when a group entity has delivered products to the customer, the customer has full discretion over the channel and price to sell the products, and there is no unfulfilled obligation that could affect the wholesaler's acceptance of the products. Delivery does not occur until the products have been shipped to the specified location, the risks of obsolescence and loss have been transferred to the wholesaler, and either the wholesaler has accepted the products in accordance with the sales contract, the acceptance provisions have lapsed, or the group has objective evidence that all criteria for acceptance have been satisfied. Sales are recorded based on list prices and returns at the time of sale. No element of financing is deemed present as the sales are made with a credit term of 60 days, which is consistent with the market practice.

*(b) Interest income*

Interest income is recognised using the effective interest method. When a loan and receivable is impaired, the group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loan and receivables is recognised using the original effective interest rate.

*(c) Dividend income*

Dividend income is recognised when the right to receive payment is established.

## 1. PRESENTATION OF FINANCIAL STATEMENTS continued

### 1.14 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the executive committee that makes strategic decisions.

### 1.15 Tax

*Current and deferred income tax*

The tax expense for the period comprises current and deferred tax. Tax is recognised in the statement of comprehensive income, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case the tax is also recognised in other comprehensive income or directly in equity, respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the reporting date in the countries where the company's subsidiaries and associates operate and generate taxable income.

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the reporting date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

Dividends declared by South African companies are subject to STC, but the STC liability is reduced by dividends received during the dividend cycle. Where the dividends received exceed dividends declared within a cycle, there is no liability to pay STC. The potential taxation benefit related to excess dividends received is carried forward to the next dividend cycle. Where dividends declared exceed the dividends received during a cycle, STC is payable at the current STC rate. The STC expense is included in the taxation charge in the statement of comprehensive income in the period that the dividend is paid. Deferred taxation assets are recognised on unutilised STC credits to the extent that it is probable that the company will declare future dividends to utilise such STC credits.

### 1.16 Share-based payments

For cash-settled share-based payment transactions, services acquired and the liability incurred are measured at the fair value of the liability. Until the liability is settled, the fair value of the liability is re-measured at each reporting date and at the date of settlement, with any changes in fair value recognised in profit or loss for the period.

If the share-based payments granted do not vest until the counterparty completes a specified period of service, the group accounts for those services as they are rendered by the counterparty during the vesting period (or on a straight-line basis over the vesting period).

If the share-based payments vest immediately the services received are recognised in full.

### 1.17 Significant judgements and sources of estimation uncertainty

Management made judgements, estimates and assumptions in the preparation of the financial statements that affect the disclosures and amounts of assets, liabilities, income, expenses and equity.

# ACCOUNTING POLICIES continued

FOR THE YEAR ENDED 31 DECEMBER 2010

## 1. PRESENTATION OF FINANCIAL STATEMENTS continued

### 1.17 Significant judgements and sources of estimation uncertainty continued

Estimates and judgements are continually being evaluated, and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts and liabilities within the next financial year are discussed below.

*(a) Estimated impairment of goodwill*

The group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates (note 4).

*(b) Residual values and useful lives*

The useful economic lives and residual values of items of property, plant and equipment and intangible assets, excluding goodwill, are estimated annually. The actual lives and residual values may vary depending on a variety of factors.

*(c) Estimated impairment of available-for-sale financial assets*

The fair value of financial instruments that are not traded in an active market is determined using valuation techniques. The group uses judgement to select the valuation method and make assumptions that are mainly based on the market conditions existing at each reporting date (note 6).

*(d) Share-based payment*

The group has issued cash-settled equity linked units that are valued at each reporting date. In calculating the fair value of these units, management makes use of estimates. The details of these estimates are disclosed in note 15.

## 2. NEW STANDARDS AND INTERPRETATIONS

### 2.1 Standards and interpretations effective and adopted in the current year

In the current year, the group has adopted the following standards and interpretations that are effective for the current financial year and that are relevant to its operations:

*IFRS 3 (Revised) Business Combinations*

The revisions to IFRS 3 (AC 140) Business Combinations require:

- Acquisition costs to be expensed.
- Non-controlling interest to either be calculated at fair value or at their proportionate share of the net identifiable assets of the acquiree.
- Contingent consideration to be included in the cost of the business combination without further adjustment to goodwill, apart from measurement period adjustments.
- All previous interests in the acquiree to be remeasured to fair value at acquisition date when control is achieved in stages, and for the fair value adjustments to be recognised in profit or loss.
- Goodwill to be measured as the difference between the acquisition date fair value of consideration paid, non-controlling interest and fair value of previous shareholding and the fair value of the net identifiable assets of the acquiree.
- The acquirer to reassess, at acquisition date, the classification of the net identifiable assets of the acquiree, except for leases and insurance contracts.
- Contingent liabilities of the acquiree to only be included in the net identifiable assets when there is a present obligation with respect to the contingent liability.

The effective date of the standard is for years beginning on or after 1 July 2009.

The group has adopted the standard for the first time in the 2010 financial statements.

The impact of the standard is not material.

## 2. NEW STANDARDS AND INTERPRETATIONS continued

### 2.1 Standards and interpretations effective and adopted in the current year continued

*IAS 27 (Amended) Consolidated and Separate Financial Statements*

The revisions require:

- Losses of the subsidiary to be allocated to non-controlling interest, even if they result in the non-controlling interest being a debit balance.
- Changes in level of control without loss of control to be accounted for as equity transactions, without any gain or loss being recognised or any remeasurement of goodwill.
- When there is a change in the level of control without losing control, the group is prohibited from making reclassification adjustments.
- When control is lost, the net identifiable assets of the subsidiary as well as non-controlling interest and goodwill are to be derecognised. Any remaining investment is remeasured to fair value at the date on which control is lost, and a gain or loss on loss of control is recognised in profit or loss.

The effective date of the amendment is for years beginning on or after 1 July 2009.

The group has adopted the amendment for the first time in the 2010 financial statements.

The impact of the amendment is not material.

*IAS 7 Statement of Cash Flows: Consequential amendments due to IAS 27 (Amended) Consolidated and Separate Financial Statements*

Cash flows arising from changes in level of control, where control is not lost, are equity transactions and are therefore accounted for as cash flows from financing transactions.

The effective date of the amendment is for years beginning on or after 1 July 2009.

The group has adopted the amendment for the first time in the 2010 financial statements.

The impact of the amendment is not material.

*IAS 12 Income Taxes – consequential amendments due to IAS 27 (Amended) Consolidated and Separate Financial Statements*

The amendment is as a result of amendments to IAS 27 (AC 132) Consolidate and Separate Financial Statements. The amendment refers to situations where a subsidiary, on acquisition date, did not recognise a deferred tax asset in relation to deductible temporary differences, because, for example, there may not have been sufficient future taxable profits against which to utilise the deductible temporary differences. If the deferred tax asset subsequently becomes recognisable, the amendment now requires that the deferred tax asset should be recognised against goodwill (and profit or loss to the extent that it exceeds goodwill), only if it results from information in the measurement period about circumstances that existed at acquisition date. No adjustment may be made to goodwill for information outside of the measurement period.

The effective date of the amendment is for years beginning on or after 1 July 2009.

The group has adopted the amendment for the first time in the 2010 financial statements.

The impact of the amendment is not material.

*2009 Annual Improvements Project: Amendments to IFRS 8 Operating Segments*

Entities are only required to report segment assets if they are regularly reported to the chief operating decision-maker.

The effective date of the amendment is for years beginning on or after 1 January 2010.

# ACCOUNTING POLICIES continued

FOR THE YEAR ENDED 31 DECEMBER 2010

## 2. NEW STANDARDS AND INTERPRETATIONS continued

### 2.1 Standards and interpretations effective and adopted in the current year continued

*2009 Annual Improvements Project: Amendments to IFRS 8 Operating Segments continued*

The group has adopted the amendment for the first time in the 2010 financial statements.

The impact of the amendment is not material.

*2009 Annual Improvements Project: Amendments to IAS 7 Statement of Cash Flows*

The amendment provides that expenditure may only be classified as 'cash flows from investing activities' if it resulted in the recognition of an asset on the statement of financial position.

The effective date of the amendment is for years beginning on or after 1 January 2010.

The group has adopted the amendment for the first time in the 2010 financial statements.

The impact of the amendment is not material.

*2009 Annual Improvements Project: Amendments to IAS 17 Leases*

The amendment removes the guidance that leases of land, where title does not transfer, are operating leases. The amendment therefore requires that lease classification for land be assessed in the same manner as for all leases. The amendment is to be applied retrospectively, unless the information is not available. In these cases, existing leases shall be reconsidered based on facts and circumstances existing at the date of adoption of the amendment. The lease asset and lease liability shall, in these cases, be recognised at their fair values on that date, with any difference in those fair values recognised in retained earnings.

The effective date of the amendment is for years beginning on or after 1 January 2010.

The group has adopted the amendment for the first time in the 2010 financial statements.

The impact of the amendment is not material.

*2009 Annual Improvements Project: Amendments to IAS 18 Revenue*

The amendment provides additional guidance in the determination of whether an entity is acting as an agent or principal in a revenue transaction.

The effective date of the amendment is for years beginning on or after 1 June 2009.

The group has adopted the amendment for the first time in the 2010 financial statements.

The impact of the amendment is not material.

*2009 Annual Improvements Project: Amendments to IAS 36 Impairment of Assets*

The amendment now requires that, for the purpose of goodwill testing, each group of units to which goodwill is allocated shall not be larger than an operating segment as defined in paragraph 5 of IFRS 8 (AC 145) Operating Segments. Thus the determination is now required to be made before operating segments are aggregated.

The effective date of the amendment is for years beginning on or after 1 January 2010.

The group has adopted the amendment for the first time in the 2010 financial statements.

The impact of the amendment is not material.

## 2. NEW STANDARDS AND INTERPRETATIONS continued

### 2.1 Standards and interpretations effective and adopted in the current year continued

*2009 Annual Improvements Project: Amendments to IAS 38 Intangible Assets*

The amendment provides guidance on the measurement of intangible assets acquired in a business combination.

The effective date of the amendment is for years beginning on or after 1 July 2009.

The group has adopted the amendment for the first time in the 2010 financial statements.

The impact of the amendment is not material.

*2009 Annual Improvements Project: Amendments to IAS 39 Financial Instruments: Recognition and Measurement*

In terms of the amendment, forward contracts to buy or sell an acquiree that will result in a business combination in the future, are only exempt from the Standard if the term of the contract does not exceed that which is reasonably necessary to obtain the required approval and complete the transaction. The amendment further clarifies that in a cash flow hedge of a forecast transaction, gains or losses should be reclassified from equity to profit or loss in the period in which the hedged forecast cash flow affects profit or loss. The amendment also clarifies that a prepayment option is not closely related to the host contract unless the exercise price is approximately equal to the present value of the lost interest for the remaining term of the host contract.

The effective date of the amendment is for years beginning on or after 1 January 2010.

The group has adopted the amendment for the first time in the 2010 financial statements.

The impact of the amendment is not material.

*Amendment to IFRS 2: Group Cash-settled Share-based Payment Transactions*

The amendment incorporates the principles of IFRIC 8 (AC 441) Scope of IFRS 2 and IFRIC 11 (AC 444) IFRS 2 Group and Treasury Share Transactions, which have consequentially been removed. In addition, the amendment provides that for share-based payment transactions among group entities, the entity receiving the goods or services shall recognise the transaction as an equity-settled share-based payment transaction if either the awards granted are its own equity instruments or the entity has no obligation to settle the transaction. In all other circumstances, such transactions shall be accounted for as cash-settled share-based payment transactions.

The effective date of the amendment is for years beginning on or after 1 January 2010.

The group has adopted the amendment for the first time in the 2010 financial statements.

The impact of the amendment is not material.

### 2.2 Standards and interpretations not yet effective

The group has chosen not to early adopt the following standards and interpretations, which have been published and are mandatory for the group's accounting periods beginning on or after 1 January 2011 or later periods:

*IFRS 9 Financial Instruments*

This new standard is the first phase of a three phase project to replace IAS 39 Financial Instruments: Recognition and Measurement. Phase one deals with the classification and measurement of financial assets. The following are changes from the classification and measurement rules of IAS 39:

- Financial assets will be categorised as those subsequently measured at fair value or at amortised cost.
- Financial assets at amortised cost are those financial assets where the business model for managing the assets is to hold the assets to collect contractual cash flows (where the contractual cash flows represent payments of principal and interest only). All other financial assets are to be subsequently measured at fair value.

## 2. NEW STANDARDS AND INTERPRETATIONS continued

### 2.2 Standards and interpretations not yet effective continued

*IFRS 9 Financial Instruments continued*

- Under certain circumstances, financial assets may be designated as at fair value.
- For hybrid contracts, where the host contract is within the scope of IFRS 9, then the whole instrument is classified in accordance with IFRS 9, without separation of the embedded derivative. In other circumstances, the provisions of IAS 39 still apply.
- Voluntary reclassification of financial assets is prohibited. Financial assets shall be reclassified if the entity changes its business model for the management of financial assets. In such circumstances, reclassification takes place prospectively from the beginning of the first reporting period after the date of change of the business model.
- Investments in equity instruments may be measured at fair value through other comprehensive income. When such an election is made, it may not subsequently be revoked, and gains or losses accumulated in equity are not recycled to profit or loss on derecognition of the investment. The election may be made per individual investment.
- IFRS 9 does not allow for investments in equity instruments to be measured at cost under any circumstances.

The effective date of the standard is for years beginning on or after 1 January 2013.

The group expects to adopt the standard for the first time in the 2013 financial statements.

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

*2010 Annual Improvements Project: Amendments to IFRS 3 Business Combinations*

The amendment clarifies the initial measurement of non-controlling interests. Only those interests which represent a present ownership interest shall be measured at either fair value or the present ownership's proportionate share in the recognised amounts of the acquiree's identifiable net assets. All other components of non-controlling interest shall be measured at their acquisition date fair values, unless otherwise required by IFRS.

It further provides transitional provisions for dealing with contingent consideration arrangements in a business combination that occurred before the effective date of the revised IFRS 3.

For equity-settled share-based payment transactions of the acquiree that the acquirer does not exchange for its share-based payment transactions, vested transactions shall be measured as part of non-controlling interest at market based measure. Unvested transactions shall be measured at market based measure as if acquisition date were grant date. This measure is then allocated to non-controlling interest based on the ratio of vesting period completed to greater of total vesting period or original vesting period.

The effective date of the amendment is for years beginning on or after 1 July 2010.

The group expects to adopt the amendment for the first time in the 2011 financial statements.

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

*2010 Annual Improvements Project: Amendments to IFRS 7 Financial Instruments: Disclosures*

Additional clarification is provided on the requirements for risk disclosures

The effective date of the amendment is for years beginning on or after 1 January 2011.

The group expects to adopt the amendment for the first time in the 2011 financial statements.

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

## 2. NEW STANDARDS AND INTERPRETATIONS continued

### 2.2 Standards and interpretations not yet effective continued

*2010 Annual Improvements Project: Amendments to IAS 1 Presentation of Financial Statements*

The amendment now requires that an entity must present, either in the statement of changes in equity or in the notes, an analysis of other comprehensive income by item.

The effective date of the amendment is for years beginning on or after 1 January 2011.

The group expects to adopt the amendment for the first time in the 2011 financial statements.

*2010 Annual Improvements Project: Amendments to IAS 21 The Effects of Changes in Foreign Exchange Rates*

The amendment provides transitional provisions as a result of changes to IAS 27 (AC 132) Consolidated and Separate Financial Statements.

The effective date of the amendment is for years beginning on or after 1 July 2010.

The group expects to adopt the amendment for the first time in the 2011 financial statements.

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

*2010 Annual Improvements Project: Amendments to IAS 34 Interim Financial Reporting*

The amendment provides additional examples of events and transactions which would be considered significant and therefore required to be disclosed in the interim financial report. In addition, the amendment removes references to only reporting certain items when they are material. Therefore, the list of items to be presented in addition to significant transactions and events are required irrespective of whether they are material.

The effective date of the amendment is for years beginning on or after 1 January 2011.

The group expects to adopt the amendment for the first time in the 2011 financial statements.

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

## 3. PROPERTY, PLANT AND EQUIPMENT

| | 2010 | | | 2009 | | |
|---|---|---|---|---|---|---|
| | **Cost R'000** | **Accumulated depreciation R'000** | **Carrying value R'000** | Cost R'000 | Accumulated depreciation R'000 | Carrying value R'000 |
| **Group** | | | | | | |
| Land and buildings | **183 665** | **(3 842)** | **179 823** | 164 541 | (2 913) | 161 628 |
| Plant and machinery | **106 899** | **(41 136)** | **65 763** | 99 685 | (33 180) | 66 505 |
| Furniture and equipment | **20 694** | **(10 995)** | **9 699** | 17 886 | (9 427) | 8 459 |
| Motor vehicles | **10 560** | **(6 203)** | **4 357** | 9 279 | (5 372) | 3 907 |
| Total | **321 818** | **(62 176)** | **259 642** | 291 391 | (50 892) | 240 499 |
| **Company** | | | | | | |
| Furniture and equipment | **10** | **–** | **10** | – | – | – |

**Reconciliation of property, plant and equipment – Group – 2010**

| | **Opening balance R'000** | **Additions R'000** | **Disposals R'000** | **Transfers R'000** | **Depreciation R'000** | **Closing balance R'000** |
|---|---|---|---|---|---|---|
| Land and buildings | **161 628** | **19 479** | **–** | **–** | **(1 284)** | **179 823** |
| Plant and machinery | **66 505** | **7 926** | **(84)** | **(185)** | **(8 399)** | **65 763** |
| Furniture and equipment | **8 459** | **4 109** | **–** | **185** | **(3 054)** | **9 699** |
| Motor vehicles | **3 907** | **1 696** | **(120)** | **–** | **(1 126)** | **4 357** |
| | **240 499** | **33 210** | **(204)** | **–** | **(13 863)** | **259 642** |

**Reconciliation of property, plant and equipment – Group – 2009**

| | Opening balance R'000 | Additions R'000 | Disposals R'000 | Transfers R'000 | Depreciation R'000 | Closing balance R'000 |
|---|---|---|---|---|---|---|
| Land and buildings | 170 279 | 12 046 | (19 362) | – | (1 335) | 161 628 |
| Plant and machinery | 63 697 | 11 640 | (673) | – | (8 159) | 66 505 |
| Furniture and equipment | 9 567 | 2 674 | (670) | – | (3 112) | 8 459 |
| Motor vehicles | 4 644 | 685 | (134) | – | (1 288) | 3 907 |
| | 248 187 | 27 045 | (20 839) | – | (13 894) | 240 499 |

**Reconciliation of property, plant and equipment – Company – 2010**

| | **Opening balance R'000** | **Additions R'000** | **Closing balance R'000** |
|---|---|---|---|
| Furniture and equipment | **–** | **10** | **10** |

| | Group | | Company | |
|---|---|---|---|---|
| | **2010 R'000** | 2009 R'000 | **2010 R'000** | 2009 R'000 |
| **3. PROPERTY, PLANT AND EQUIPMENT** continued | | | | |
| **Pledged as security** | | | | |
| Carrying value of assets pledged as security for interest bearing borrowings (note 13): | | | | |
| **Mortgage bonds** | | | | |
| Land and building | **179 823** | 161 628 | **–** | – |
| **Instalment sale liabilities** | | | | |
| Plant and machinery | **14 604** | 17 922 | **–** | – |
| Motor vehicles | **634** | 1 010 | **–** | – |
| | **195 061** | 180 560 | **–** | – |

A register of land and buildings containing the information required by paragraph 22(3) of Schedule 4 of the Companies Act is available for inspection at the registered office of the company.

## 4. INTANGIBLE ASSETS

| **Group** | **2010** | | | 2009 | | |
|---|---|---|---|---|---|---|
| | **Cost R'000** | **Accumulated amortisation R'000** | **Carrying value R'000** | Cost R'000 | Accumulated amortisation R'000 | Carrying value R'000 |
| Goodwill | **323 108** | **–** | **323 108** | 323 108 | – | 323 108 |
| Trade names | **14 347** | **(2 451)** | **11 896** | 14 347 | (1 734) | 12 613 |
| Customer relationships | **10 074** | **(6 536)** | **3 538** | 10 074 | (4 522) | 5 552 |
| Computer software | **9 981** | **(4 532)** | **5 449** | 7 895 | (2 738) | 5 157 |
| Total | **357 510** | **(13 519)** | **343 991** | 355 424 | (8 994) | 346 430 |

**Reconciliation of intangible assets – Group – 2010**

| | **Opening balance R'000** | **Additions R'000** | **Amortisation R'000** | **Closing balance R'000** |
|---|---|---|---|---|
| Goodwill | **323 108** | **–** | **–** | **323 108** |
| Trade names | **12 613** | **–** | **(717)** | **11 896** |
| Customer relationships | **5 552** | **–** | **(2 014)** | **3 538** |
| Computer software | **5 157** | **2 086** | **(1 794)** | **5 449** |
| | **346 430** | **2 086** | **(4 525)** | **343 991** |

**Reconciliation of intangible assets – Group – 2009**

| | Opening balance R'000 | Additions R'000 | Amortisation R'000 | Closing balance R'000 |
|---|---|---|---|---|
| Goodwill | 323 108 | – | – | 323 108 |
| Trade names | 13 240 | – | (627) | 12 613 |
| Customer relationships | 7 567 | – | (2 015) | 5 552 |
| Computer software | 5 933 | 845 | (1 621) | 5 157 |
| | 349 848 | 845 | (4 263) | 346 430 |

## 4. INTANGIBLE ASSETS continued

### Other information

Goodwill, trade names and customer relationships are allocated to their respective underlying cash-generating units. For this purpose, the respective companies acquired are defined as the underlying cash-generating units. All these assets relate to the acquisition of Radiant Group (Proprietary) Limited, the lighting and electrical accessories segment.

### Goodwill

The impairment test for goodwill identifies the recoverable amount of a cash-generating unit determined based on the higher of its value-in-use or fair value less costs to sell. Value-in-use calculations are prepared using cash flow projections based on financial budgets approved by management and cover a seven-year period. The estimated growth rates applied are in line with that of the industry in which the company operates and are materially similar to assumptions of external market sources. The cash-generating units' recoverable amount is most sensitive to the growth rate assumptions applied. Assumptions were based on management's past experience and best estimates regarding forecasts. Management determined budgeted gross margin based on past performance and its expectations of market developments. Cash flows beyond the seven-year period are extrapolated using the estimated growth rate stated below. The discount rates used are pre-tax and reflect the appropriate risk associated with the industry and respective business.

A summary of the key assumptions used for value in use calculations are as follows:
Growth rate – (Weighted average growth rate used to extrapolate cash flows into perpetuity) – 6,5% (2009: 6,5%)
Discount rate – (Weighted pre-tax discount rate applied to the cash flow projections) – 15,3% (2009: 15,6%)

Based on the value-in-use calculations it was determined that there was no impairment of goodwill (2009: R Nil).

| | Company | |
|---|---|---|
| | **2010 R'000** | 2009 R'000 |
| **5. INVESTMENTS IN SUBSIDIARIES** | | |
| Subsidiaries at cost | **1 115 453** | 1 115 453 |
| Accumulated impairment | **(98 990)** | (98 990) |
| | **1 016 463** | 1 016 463 |
| The shares in Radiant Group (Proprietary) Limited and South Ocean Electric Wire Company (Proprietary) Limited have been ceded as security for banking facilities as stated in note 13. Details of interest in subsidiaries are set out in note 36. | | |
| Aggregate profits before taxation attributable to the company amounted to: | **78 758** | 74 729 |
| Aggregate losses before taxation attributable to the company amounted to: | **–** | (17 385) |
| The carrying amounts of subsidiaries are shown net of impairment losses. The amounts are considered to be recoverable and are all denominated in South African Rands. | | |

| | Group | | Company | |
|---|---|---|---|---|
| | **2010 R'000** | **2009 R'000** | **2010 R'000** | **2009 R'000** |
| **6. AVAILABLE-FOR-SALE FINANCIAL ASSETS** | | | | |
| **Unlisted shares** | | | | |
| JS Technology Company Limited | **1 582** | 1 582 | **1 582** | 1 582 |
| Less: Impairment | **(1 582)** | (1 582) | **(1 582)** | (1 582) |
| | **–** | – | **–** | – |
| JS Technology Company Limited is a research and development company for LED Technology and is based in Taiwan. As at 31 December 2010, the investment in JS Technology Company Limited was considered to be impaired. | | | | |
| **7. INVENTORIES** | | | | |
| Raw materials | **25 016** | 31 976 | **–** | – |
| Production supplies | **6 450** | 4 974 | **–** | – |
| Work in progress | **23 556** | 13 365 | **–** | – |
| Finished goods | **15 552** | 10 464 | **–** | – |
| Merchandise | **97 877** | 70 334 | **–** | – |
| Goods in transit | **20 128** | 15 551 | **–** | – |
| | **188 579** | 146 664 | **–** | – |

The cost of inventories recognised as an expense and included in cost of sales is R851 365 000 (2009: R703 230 000). Inventory with a carrying value of R19 640 000 (2009: R26 813 000) is carried at net realisable value.

| | Group | | Company | |
|---|---|---|---|---|
| | **2010 R'000** | **2009 R'000** | **2010 R'000** | **2009 R'000** |
| **8. TRADE AND OTHER RECEIVABLES** | | | | |
| Trade receivables | **124 235** | 119 831 | **–** | – |
| Amounts owing by subsidiaries | | | **3 462** | 7 661 |
| Receiver of Revenue – VAT receivable | **633** | 2 059 | **–** | – |
| Other receivables | **6 608** | 2 113 | **289** | – |
| | **131 476** | 124 003 | **3 751** | 7 661 |
| **Trade and other receivables past due but not impaired** | | | | |
| Trade receivables of R44 795 000 (2009: R51 698 000) were past due but not impaired. These related to customers for whom there is no recent history of default. The age analysis of these trade receivable is as follows: | | | | |
| 2 months | **36 468** | 42 216 | **–** | – |
| 3 months | **7 815** | 6 276 | **–** | – |
| Over 3 months | **512** | 3 206 | **–** | – |
| | **44 795** | 51 698 | **–** | – |
| **Trade and other receivables impaired** | | | | |
| As at 31 December 2010 trade receivables of R6 057 000 (2009: R12 172 000) were impaired and provided for. The amount of the provision in respect of these debtors was R4 240 000 (2009: R6 015 000). It was assessed that a portion of these trade receivables were considered to be recoverable. The aging of these receivables is as follows: | | | | |
| 2 months | **3 165** | 6 368 | **–** | – |
| 3 months | **822** | 5 128 | **–** | – |
| Over 3 months | **2 070** | 676 | **–** | – |
| | **6 057** | 12 172 | **–** | – |
| **Reconciliation of provision for impairment of trade and other receivables** | | | | |
| Balance at the beginning of the year | **6 015** | 6 300 | **–** | – |
| Provision for receivables impairment | **1 555** | 419 | **–** | – |
| Utilised during the year | **(314)** | (187) | **–** | – |
| Unused amount reversed | **(3 016)** | (517) | **–** | – |
| Balance at the end of the year | **4 240** | 6 015 | **–** | – |

The creation and release of the provision for impaired receivables has been included in the other operating expenses in the statement of comprehensive income. Amounts charged to the allowance account are generally written off when there is no expectation of recovering additional cash. Individually impaired receivables mainly relate to customers who are in difficult economic situations.

Trade receivables that are less than one month overdue are not considered to be impaired.

As at 31 December 2010, trade receivables of R73 383 000 (2009: R55 961 000) were fully performing.

The carrying amounts of trade and other receivables are all denominated in South African Rands. The fair value of trade and other receivables is disclosed in note 33.

Trade receivables are insured with Credit Guarantee Insurance Corporation of South Africa Limited and the group utilises them to perform the necessary credit checks. South Ocean Electric Wire Company (Proprietary) Limited is exposed to a maximum credit risk of R400 000 for all trade receivables that are within their approved credit limits and 100% of the fair value of trade receivables that are in excess of their credit limits. Radiant Group (Proprietary) Limited is exposed to 15% of the fair value of trade accounts receivables within the credit limits and 100% of all the trade receivables that are in excess of their credit limits. The group does not hold any collateral as security.

Trade receivables have been ceded as security for banking facilities as stated in note 10.

| | Group 2010 R'000 | Group 2009 R'000 | Company 2010 R'000 | Company 2009 R'000 |
|---|---|---|---|---|
| **9. LOANS TO/(FROM) GROUP COMPANIES** | | | | |
| **Subsidiaries** | | | | |
| Anchor Park Investments 48 (Proprietary) Limited | | | **3 324** | – |
| Radiant Group (Proprietary) Limited | | | **892** | – |
| South Ocean Electric Wire Company (Proprietary) Limited | | | **(2 999)** | (8 096) |
| | | | **1 217** | (8 096) |
| Current assets | | | **4 216** | – |
| Current liabilities | | | **(2 999)** | (8 096) |
| | | | **1 217** | (8 096) |

The loan from South Ocean Electric Wire Company (Proprietary) Limited is unsecured, interest free and is not subject to any fixed terms of repayment, and will only be paid when there are sufficient cash resources to repay the loan. The loans to Anchor Park Investments 48 (Proprietary) Limited and Radiant Group (Proprietary) Limited are unsecured, and are not subject to any fixed terms of repayment, and will only be paid when there are sufficient cash resources to repay the loans. Interest is charged by Anchor Park at a rate of 7,0% per annum. The amounts are considered to be recoverable and are all denominated in South African Rands.

| | Group 2010 R'000 | Group 2009 R'000 | Company 2010 R'000 | Company 2009 R'000 |
|---|---|---|---|---|
| **10. CASH AND CASH EQUIVALENTS** | | | | |
| Cash and cash equivalents consist of: | | | | |
| Bank balances | **44 568** | 64 621 | **1 418** | 1 482 |
| Cash on hand | **32** | 14 | **–** | – |
| Bank overdraft | **(9 827)** | (5 855) | **–** | – |
| | **34 773** | 58 780 | **1 418** | 1 482 |
| Current assets | **44 600** | 64 635 | **1 418** | 1 482 |
| Current liabilities | **(9 827)** | (5 855) | **–** | – |
| | **34 773** | 58 780 | **1 418** | 1 482 |
| Denominated in South African Rands | **31 804** | 50 572 | **1 418** | 1 482 |
| Denominated in United States Dollars | **2 969** | 208 | **–** | – |

**Banking facilities**

The following securities are held with the group's bankers:

**First National Bank Limited, a division of FirstRand Bank Limited**

The bank overdraft facility, currently R75 million, is secured by a cession of South Ocean Electric Wire Company (Proprietary) Limited's trade receivables, a cession of trade receivables cover policy with Credit Guarantee Insurance Corporation of Africa Limited as well as noting bank's interest and a deed of negative pledge of assets. The facility, when utilised, bears interest at prime less one percent. The unused facility at year-end amounted to R75 million (2009: R89 million) (refer note 33).

**Investec Bank Limited**

The group has an overdraft facility of R10 million (2009: R20 million) which is secured by the cession of Radiant Group (Proprietary) Limited trade and other receivables with a reversionary cession to Futuregrowth Asset Management (Proprietary) Limited, acting on behalf of various lenders. The facility, when utilised, bears interest at prime less one percent. The unused facility at year-end amounted to R0,17 million (2009: R20 million) (refer note 33).

# NOTES TO THE FINANCIAL STATEMENTS continued

FOR THE YEAR ENDED 31 DECEMBER 2010

| | Group | | Company | |
|---|---|---|---|---|
| | 2010 R'000 | 2009 R'000 | 2010 R'000 | 2009 R'000 |
| **11. SHARE CAPITAL AND PREMIUM** | | | | |
| **Authorised** | | | | |
| 500 000 000 ordinary shares of R 0,01 each | **5 000** | 5 000 | **5 000** | 5 000 |
| **Issued** | | | | |
| 156 378 794 ordinary shares of R 0,01 each | **1 274** | 1 274 | **1 564** | 1 564 |
| Share premium | **440 371** | 440 371 | **1 117 300** | 1 117 300 |
| | **441 645** | 441 645 | **1 118 864** | 1 118 864 |

The directors are authorised, by resolution of the shareholders, and until the forthcoming annual general meeting, to allot or issue shares at their discretion, subject to the provisions of the Companies Act of South Africa, and the listing requirements of the JSE Limited.

As a consequence of the reverse acquisition in 2007, as described in the basis of preparation, the number of shares disclosed as issued are those of South Ocean Holdings Limited at the date of the reverse acquisition, including the shares issued to effect the reverse acquisition. The value of shares on consolidation are those of the operating company, South Ocean Electric Wire Company (Proprietary) Limited, including the value of any shares issued thereafter.

## 12. OTHER COMPREHENSIVE INCOME

**Components of other comprehensive income – Group – 2010**

| | Gross R'000 | Tax R'000 | Net R'000 |
|---|---|---|---|
| **Foreign currency translation reserve** | | | |
| Translation exchange differences at year-end | **(706)** | **–** | **(706)** |

| | Group | | Company | |
|---|---|---|---|---|
| | 2010 R'000 | 2009 R'000 | 2010 R'000 | 2009 R'000 |
| **13. INTEREST BEARING BORROWINGS** | | | | |
| **Mortgage bonds** | | | | |
| Futuregrowth Asset Management (Proprietary) Limited | **44 652** | 79 820 | **–** | – |
| Investec Asset Management (Proprietary) Limited | **19 750** | – | **–** | – |
| Bank of Taiwan South African (Proprietary) Limited | **4 452** | 5 584 | **–** | – |
| | **68 854** | 85 404 | – | **–** |
| **Other loans** | | | | |
| Futuregrowth Asset Management (Proprietary) Limited | **27 017** | 45 000 | **–** | – |
| Investec Asset Management (Proprietary) Limited | **6 754** | – | **–** | – |
| Instalment sale liabilities | **4 414** | 7 951 | **–** | – |
| | **38 185** | 52 951 | **–** | – |
| | **107 039** | 138 355 | **–** | – |
| **Non-current liabilities** | | | | |
| Mortgage bonds | **50 522** | 55 821 | **–** | – |
| Other loans | **20 991** | 46 697 | **–** | – |
| | **71 513** | 102 518 | **–** | – |
| **Current liabilities** | | | | |
| Mortgage bonds | **18 332** | 29 583 | **–** | – |
| Other loans | **17 194** | 6 254 | **–** | – |
| | **35 526** | 35 837 | **–** | – |
| | **107 039** | 138 355 | **–** | – |

| | Group | | Company | |
|---|---|---|---|---|
| | 2010 R'000 | 2009 R'000 | 2010 R'000 | 2009 R'000 |
| **13. INTEREST BEARING BORROWINGS** continued | | | | |
| **The maturity of non-current borrowings is as follows:** | | | | |
| Between one and two years | **33 876** | 35 030 | **–** | – |
| Between two and five years | **37 637** | 67 488 | **–** | – |
| | **71 513** | 102 518 | **–** | – |

### Borrowing powers

The maximum permitted borrowing powers in terms of the company's Articles of Association is unlimited.

### Securities

The interest bearing borrowings are secured as follows:

*Mortgage bonds*

**Futuregrowth Asset Management (Proprietary) Limited**

The loan is secured by an irrevocable guarantee from Radiant Group (Proprietary) Limited, a first ranking mortgage bond registered over all properties as disclosed in note 3 excluding Erf 685, Alrode, Extension 2, and cession of rentals due from Radiant Group (Proprietary) Limited, South Ocean Holdings Limited and South Ocean Electric Wire Company (Proprietary) Limited.

The loan bears interest at one month JIBAR plus 1,80%. At year-end, the one month JIBAR rate was 5,42% (2009: 6,94%). The loan is payable in monthly capital instalments totalling R994 933 (2009: R1 435 000) per month plus interest.

**Investec Asset Management (Proprietary) Limited**

The loan is secured by an irrevocable guarantee from Radiant Group (Proprietary) Limited, a first ranking mortgage bond registered over all properties as disclosed in note 3 excluding Erf 685, Alrode Extension 2, Township and cession of rentals due from Radiant Group (Proprietary) Limited, South Ocean Holdings Limited and South Ocean Electric Wire Company (Proprietary) Limited.

The loan bears interest at one month JIBAR plus 1,80%. At year end, the one month JIBAR rate was 5,42% (2009: 6,94%). The loan is payable in monthly capital instalments totalling R440 000 (2009: R Nil) per month plus interest.

**Bank of Taiwan South African Branch**

The loan is secured by first covering mortgage bond over Erf 685 Alrode Extension 2 Township and a limited suretyship of R5 565 000 issued by South Ocean Holdings Limited. The interest is payable at Standard Bank of South Africa Limited's prime lending rate less 1,60% per annum. Prime is currently 9% (2009: 10,5%). The loan is repayable in monthly capital instalments totalling R92 750 (2009: R92 750), plus interest.

*Other loans*

**Futuregrowth Asset Management (Proprietary) Limited**

This loan bears interest at three months JIBAR rate plus 1,80%. At year-end, the three months JIBAR rate was 5,42% (2009: 6,94%). The loan is repayable in quarterly capital instalments totalling R3 000 000 (2009: R3 750 000), plus interest. The loan is secured with an irrevocable guarantee from Anchor Park Investments 48 (Proprietary) Limited, a first ranking mortgage bond registered over all properties as disclosed in note 3 and a cession of rentals due from Radiant Group (Proprietary) Limited and South Ocean Electric Wire Company (Proprietary) Limited.

**Investec Asset Management (Proprietary) Limited**

This loan bears interest at three months JIBAR rate plus 1,80%. At year-end, the three months JIBAR rate was 5,42% (2009: 6,94%). The loan is repayable in quarterly capital instalments totalling R750 000 (2009: RNil), plus interest. The loan is secured with an irrevocable guarantee from Anchor Park Investments 48 (Proprietary) Limited, a first ranking mortgage bond registered over all properties as disclosed in note 3 and a cession of rentals due from Radiant Group (Proprietary) Limited and South Ocean Electric Wire Company (Proprietary) Limited.

**Instalment sale agreements**

Secured over vehicles, plant and equipment (note 3), bear interest at prime minus 1,50%, and are repayable in monthly instalments of R509 679 (2009: R678 179), inclusive of interest.

# NOTES TO THE FINANCIAL STATEMENTS continued

FOR THE YEAR ENDED 31 DECEMBER 2010

| | Group | | Company | |
|---|---|---|---|---|
| | **2010 R'000** | **2009 R'000** | **2010 R'000** | **2009 R'000** |
| **14. DEFERRED TAX** | | | | |
| **Reconciliation of deferred taxation liability** | | | | |
| At the beginning of the year | **(26 818)** | (29 497) | **–** | – |
| Current year temporary differences | **(1 748)** | 2 679 | **–** | – |
| At the end of the year | **(28 566)** | (26 818) | **–** | – |
| **Recognition of deferred tax** | | | | |
| Deferred tax is calculated on all temporary differences under the liability method using a principal taxation rate of 28,0%. Deferred income taxation assets and liabilities are offset when the income taxes relate to the same fiscal authority, and there is a legal right to offset at settlement. The deferred tax provision is in respect of: | | | | |
| **The balance comprises:** | | | | |
| Provisions | **682** | 1 203 | **–** | – |
| Capital allowances | **(29 248)** | (28 021) | **–** | – |
| | **(28 566)** | (26 818) | **–** | – |

| **Group** | **Capital allowances R'000** | **Provisions R'000** | **Total R'000** |
|---|---|---|---|
| **31 December 2010** | | | |
| Opening balance | **(28 021)** | **1 203** | **(26 818)** |
| Charge to the statement of comprehensive income | **(1 227)** | **(521)** | **(1 748)** |
| Closing balance | **(29 248)** | **682** | **(28 566)** |
| **31 December 2009** | | | |
| Opening balance | (30 940) | 1 443 | (29 497) |
| Charge to the statement of comprehensive income | 2 919 | (240) | 2 679 |
| Closing balance | (28 021) | 1 203 | (26 818) |

| | Group | | Company | |
|---|---|---|---|---|
| | **2010 R'000** | **2009 R'000** | **2010 R'000** | **2009 R'000** |
| Taxation losses at the end of the year | **7 533** | 2 884 | **1 287** | 213 |
| Unprovided deferred tax asset | **2 109** | 808 | **360** | 60 |

## 15. SHARE-BASED PAYMENTS

### Long-term incentive plan

Equity growth units entitle the holder to a bonus equal to the escalation in value of the equity growth units. Since the holder of the units is not exposed to downside risk, the nature of the instruments held constitutes an option. The long-term incentive plan is classified as a cash-settled scheme.

Equity growth units were granted on 1 January 2009 and 1 January 2010 under the entities South Ocean Holdings Limited, South Ocean Electric Wire Company (Proprietary) Limited and Radiant Group (Proprietary) Limited.

The grant value of South Ocean Electric Wire Company (Proprietary) Limited and Radiant Group (Proprietary) Limited will be allocated as to 75% thereof to equity growth units linked to the shares of the entity and as to 25% linked to the shares of the holding company, South Ocean Holdings Limited.

The vesting period is at the end of three years, except for the vesting period for rights granted in 2009 for the executive directors of South Ocean Holdings Limited and its subsidiaries which is two years, from the date of allocation. The vesting period may be extended to four years (or three years for selected employees) at the option of the holder. The holder needs to notify the employer by no later than 15 March after the three years. At 31 December 2010 management did not expect the holders to defer the exercise of the options after the vesting period.

### Exercise price

The value of an equity growth unit is equal to the increase in value from the date of allocation. Therefore, the allocation day share price was applied as exercise price. The following table outlines the exercise prices:

| Allocation date | South Ocean Holdings exercise price R | Entity exercise price R |
|---|---|---|
| **1 January 2009** | | |
| South Ocean Holdings Limited | 1,43 | – |
| South Ocean Electric Wire Company (Proprietary) Limited | 1,43 | 16,63 |
| Radiant Group (Proprietary) Limited | 1,43 | 10,76 |
| **1 January 2010** | | |
| South Ocean Holdings Limited | **1,50** | **–** |
| South Ocean Electric Wire Company (Proprietary) Limited | **1,50** | **25,66** |
| Radiant Group (Proprietary) Limited | **1,50** | **14,29** |

### Spot price

The South Ocean Holdings Limited share price applied to the equity growth units that have already vested is calculated as the Volume Weighted Average Price ("VWAP") for the month of December 2010. A VWAP of R2,05 was calculated and applied in the valuation. The South Ocean Holdings Limited share price for the unvested equity growth units was obtained as the closing price on 31 December 2010.

| | South Ocean Holdings Spot price (unvested) R | Entity Spot price R |
|---|---|---|
| South Ocean Holdings Limited | **2,35** | **–** |
| South Ocean Electric Wire Company (Proprietary) Limited | **2,35** | **25,76** |
| Radiant Group (Proprietary) Limited | **2,35** | **10,29** |

### Volatility

By applying the equally weighted methodology to the historical share prices of South Ocean Holdings Limited, the volatility is 57,35% for grant date 1 January 2009 and vesting date of 31 December 2011 and 65,31% for grant date 1 January 2010 and vesting date of 31 December 2012.

### Dividend yield

The average dividend yield of South Ocean Holdings Limited over the year preceding the valuation date is 1,39%.

The South Ocean Holdings dividend yield was used as a proxy for the South Ocean Electric Wire Company (Proprietary) Limited and Radiant Group (Proprietary) Limited dividend yields.

# NOTES TO THE FINANCIAL STATEMENTS continued

FOR THE YEAR ENDED 31 DECEMBER 2010

| | Group | | Company | |
|---|---|---|---|---|
| | **2010 R'000** | **2009 R'000** | **2010 R'000** | **2009 R'000** |
| **15. SHARE BASED PAYMENTS continued** | | | | |
| **Risk free interest rate** | | | | |
| The risk free interest rates were determined from a zero coupon perfect fit swap curve. The 31 December 2010 zero coupon swap curve was sourced form the Bond Exchange of South Africa. | | | | |
| **Reconciliation of liability** | | | | |
| Opening balance | **–** | – | **–** | – |
| Charge in statement of comprehensive income | **7 380** | – | **4 186** | – |
| Closing balance | **7 380** | – | **4 186** | – |
| Current liabilities | **5 010** | – | **2 763** | – |
| Non-current liabilities | **2 370** | – | **1 423** | – |
| | **7 380** | – | **4 186** | – |
| **Reconciliation of units** | | | | |
| Opening balance | **6 036** | – | **4 432** | – |
| Units granted | **4 346** | 6 036 | **2 919** | 4 432 |
| Closing balance | **10 382** | 6 036 | **7 351** | 4 432 |
| **16. TRADE AND OTHER PAYABLES** | | | | |
| Trade payables | **56 772** | 40 168 | **1 132** | 354 |
| Receiver of Revenue VAT payable | **894** | 1 438 | **219** | 181 |
| Accruals | **7 820** | 6 812 | **95** | 381 |
| Deposits received | **117** | 99 | **–** | – |
| Other payables | **11 843** | 10 478 | **3 532** | 2 899 |
| | **77 446** | 58 995 | **4 978** | 3 815 |
| **Currencies** | | | | |
| The trade payables will be settled in the following currencies: | | | | |
| South African Rands | **16 505** | 21 005 | **1 132** | 354 |
| United States Dollars | **40 138** | 19 018 | **–** | – |
| European Euro | **129** | 145 | **–** | – |
| | **56 772** | 40 168 | **1 132** | 354 |

Trade and other payables are unsecured, and are repayable within a period of twelve months. The carrying amount and fair value of the current borrowings are included in note 33.

FOR THE YEAR ENDED 31 DECEMBER 2010

| | Group | | Company | |
|---|---|---|---|---|
| | **2010 R'000** | **2009 R'000** | **2010 R'000** | **2009 R'000** |
| **17. DERIVATIVE FINANCIAL INSTRUMENTS** | | | | |
| **Liability** | | | | |
| Forward exchange contracts | **680** | – | **–** | – |
| The notional principal amount of the outstanding forward exchange contracts at the end of 31 December 2010 was R20 264 000. | | | | |
| Trading derivatives are classified as a current asset or current liability. | | | | |
| **18. REVENUE** | | | | |
| Sale of goods | **1 138 130** | 957 972 | **–** | – |
| Management fees | **–** | – | **13 680** | 12 680 |
| Dividends | **–** | – | **7 175** | – |
| | **1 138 130** | 957 972 | **20 855** | 12 680 |
| **19. OTHER OPERATING INCOME** | | | | |
| Rental received | **1 509** | 1 213 | **–** | – |
| Bad debts recovered | **616** | 234 | **–** | – |
| Foreign exchange gain | **4 420** | 10 479 | **–** | – |
| Surplus on disposal of property, plant and equipment | **245** | 32 | **–** | – |
| Other income | **554** | 140 | **–** | – |
| | **7 344** | 12 098 | **–** | – |
| **20. EXPENSES BY NATURE** | | | | |
| Auditor's remuneration | | | | |
| – Audit fees | **1 397** | 1 455 | **319** | 218 |
| – Expenses | **16** | 43 | **–** | – |
| – (Over)/under provision prior year | **(54)** | 127 | **(82)** | 82 |
| – Other service fees | **40** | 8 | **35** | 175 |
| Advertising and promotions | **8 695** | 11 382 | **382** | – |
| Amortisation of intangible assets | **4 525** | 4 263 | **–** | – |
| Bad debt reversal | **(1 461)** | (472) | **–** | – |
| Bad debts written off | **379** | 187 | **–** | – |
| Changes in inventories of finished goods and work in progress | **15 955** | 48 024 | **–** | – |
| Deficit on disposal of property, plant and equipment | **–** | 6 111 | **–** | – |
| Depreciation | **13 863** | 13 894 | **–** | – |
| Electricity and water | **7 566** | 5 276 | **–** | – |
| Employee benefit expense (note 21) | **124 509** | 118 596 | **12 843** | 9 150 |
| Foreign exchange loss | **665** | – | **–** | – |
| Freight costs | **12 404** | 11 705 | **–** | – |
| Insurance – other | **871** | 1 677 | **–** | – |
| Insurance – trade receivables | **1 768** | 1 522 | **–** | – |
| Legal fees | **591** | 1 697 | **18** | 106 |
| Motor vehicle expenses | **3 186** | 2 979 | **–** | – |
| Operating leases | | | | |
| – rental of warehouse premises | **–** | 223 | **–** | – |
| Other expenses | **14 136** | 15 097 | **855** | 1 469 |
| Professional fees | **3 460** | 2 503 | **1 478** | 1 708 |
| Purchase of merchandise | **174 344** | 177 546 | **–** | – |
| Rates and taxes | **1 562** | 812 | **–** | – |
| Raw materials and consumables used | **661 066** | 477 660 | **–** | – |
| Repairs and maintenance | **7 494** | 7 596 | **–** | – |
| **Total cost of sales, administration, distribution and other operating expenses** | **1 056 977** | 909 911 | **15 848** | 12 908 |

# NOTES TO THE FINANCIAL STATEMENTS continued

FOR THE YEAR ENDED 31 DECEMBER 2010

| | Group | | Company | |
|---|---|---|---|---|
| | **2010 R'000** | **2009 R'000** | **2010 R'000** | **2009 R'000** |
| **21. EMPLOYEE BENEFIT EXPENSE** | | | | |
| Directors' remuneration (note 22) | | | **8 057** | 7 443 |
| Salaries, wages and bonuses | **110 855** | 114 567 | **600** | 1 707 |
| Share-based payments | **7 380** | – | **4 186** | – |
| Pension fund contributions | **6 274** | 4 029 | **–** | – |
| | **124 509** | 118 596 | **12 843** | 9 150 |
| The employees of the group are the members of the following contribution plans: | | | | |
| – Metal Industries Pension Fund | | | | |
| – Dynamique Pension Fund | | | | |
| – Momentum Funds at Work | | | | |
| – MEIBC Provident Fund | | | | |
| **Number of employees at 31 December** | | | | |
| – full time | **634** | 645 | **3** | 2 |
| – part time | **7** | 6 | **7** | 6 |
| | **641** | 651 | **10** | 8 |

## 22. DIRECTORS' EMOLUMENTS

The details of the changes in the directors are disclosed in the directors' report.

The directors' remuneration for the year ended 31 December 2010 was as follows:

**Executive directors**

| | Salary R'000 | Performance bonus R'000 | Medical and group benefit contributions R'000 | Provident Fund R'000 | Total R'000 | Paid by subsidiaries R'000 | Paid by the company R'000 |
|---|---|---|---|---|---|---|---|
| **2010** | | | | | | | |
| EHT Pan | **2 870** | **657** | **30** | **390** | **3 947** | **–** | **3 947** |
| JP Bekker | **2 226** | **482** | **63** | **240** | **3 011** | **–** | **3 011** |
| PJM Ferreira | **1 020** | **824** | **12** | **98** | **1 954** | **1 954** | **–** |
| | **6 116** | **1 963** | **105** | **728** | **8 912** | **1 954** | **6 958** |
| **2009** | | | | | | | |
| EHT Pan | 2 595 | 542 | 27 | 375 | 3 539 | – | 3 539 |
| JP Bekker | 1 962 | 416 | 62 | 239 | 2 679 | – | 2 679 |
| H Schwartz | 1 119 | – | 64 | 168 | 1 351 | 1 351 | – |
| PJM Ferreira | 1 161 | – | 13 | 117 | 1 291 | 1 291 | – |
| G Stein | 900 | – | 56 | 135 | 1 091 | 1 091 | – |
| | 7 737 | 958 | 222 | 1 034 | 9 951 | 3 733 | 6 218 |

**Non-executive directors**

| | Fees | Paid by the company |
|---|---|---|
| **2010** | | |
| CY Wu | **143** | **143** |
| EG Dube | **359** | **359** |
| HL Li | **143** | **143** |
| KH Pon | **320** | **320** |
| M Chong | **107** | **107** |
| D Tam | **27** | **27** |
| | **1 099** | **1 099** |
| **2009** | | |
| JB Magwaza | 259 | 259 |
| CY Wu | 186 | 186 |
| D Ko | 25 | 25 |
| CH Pan | 50 | 50 |
| EG Dube | 316 | 316 |
| HL Li | 69 | 69 |
| JL Law | 50 | 50 |
| KH Pon | 270 | 270 |
| | 1 225 | 1 225 |

| | Company | |
|---|---|---|
| | 2010 R'000 | 2009 R'000 |
| Executive directors | **6 958** | 6 218 |
| Non-executive directors | **1 099** | 1 225 |
| **Total directors' emoluments** | **8 057** | 7 443 |

| | Group | | Company | |
|---|---|---|---|---|
| | 2010 R'000 | 2009 R'000 | 2010 R'000 | 2009 R'000 |
| **23. FINANCE INCOME** | | | | |
| **Interest received** | | | | |
| Subsidiaries | | | **94** | – |
| Bank | **1 700** | 2 843 | **60** | 36 |
| Receiver of Revenue | **1** | – | **–** | – |
| | **1 701** | 2 843 | **154** | 36 |
| **24. FINANCE COSTS** | | | | |
| **Interest paid** | | | | |
| Mortgage bonds | **6 314** | 9 192 | **–** | – |
| Preference dividends | **–** | 1 133 | **–** | – |
| Bank | **3 751** | 1 742 | **–** | – |
| Receiver of Revenue | **64** | – | **–** | – |
| Instalment sale agreements | **451** | 1 220 | **–** | – |
| Other loans | **2 875** | 5 244 | **–** | – |
| | **13 455** | 18 531 | **–** | – |
| **25. TAXATION** | | | | |
| **Major components of the tax expense** | | | | |
| **Current** | | | | |
| South African normal tax | **21 849** | 13 470 | **–** | – |
| Local income tax recognised in current tax for prior periods | **201** | – | **–** | – |
| Secondary taxation on companies | **469** | 2 023 | **469** | – |
| | **22 519** | 15 493 | **469** | – |
| **Deferred** | | | | |
| Originating and reversing temporary differences | **1 538** | (2 679) | **–** | – |
| Arising from prior period adjustments | **210** | – | **–** | – |
| | **1 748** | (2 679) | **–** | – |
| | **24 267** | 12 814 | **469** | – |
| **Reconciliation of the tax expense** | | | | |
| Profit/(loss) before taxation | **76 743** | 44 471 | **5 160** | (192) |
| Tax at standard rate of 28% (2009: 28%) | **21 488** | 12 452 | **1 445** | (54) |
| Adjusted for: | | | | |
| Exempt income | **–** | (286) | **(1 510)** | – |
| Prior year under provision current tax | **201** | – | **–** | – |
| Prior year under provision deferred tax | **210** | – | **–** | – |
| Secondary taxation on companies | **469** | 2 023 | **469** | – |
| Expenses not deductible | **132** | 546 | **107** | 30 |
| Capital gain on disposal of property, plant and equipment | **–** | (1 065) | **–** | – |
| Foreign subsidiary tax rate difference | **(34)** | (607) | **–** | – |
| Unprovided deferred taxation | **1 801** | (249) | **457** | 24 |
| **South African normal taxation** | **24 267** | 12 814 | **968** | – |

FOR THE YEAR ENDED 31 DECEMBER 2010

| | Group 2010 R'000 | Group 2009 R'000 |
|---|---|---|
| **26. EARNINGS PER SHARE** | | |
| Basic and diluted earnings per share (cents) | **33,6** | 20,2 |
| Earnings attributable to ordinary shareholders | **52 476** | 31 657 |
| **Headline earnings per share** | | |
| Headline earnings per share (cents) | **33,4** | 24,1 |
| **Reconciliation between earnings and headline earnings** | | |
| Earnings attributable to ordinary shareholders | **52 476** | 31 657 |
| **Adjusted for:** | | |
| (Surplus)/deficit on disposal of property, plant and equipment | **(176)** | 6 079 |
| **Headline earnings** | **52 300** | 37 736 |
| Diluted earnings per share is equal to earnings per share because there are no dilutive potential ordinary shares in issue. | | |
| **27. DIVIDENDS PER SHARE** | | |
| The board of directors did not declare a dividend for the year ended 31 December 2010 (2009: R0,03 per ordinary share). | | |
| Dividends paid | **4 691** | – |
| Dividends recommended | **–** | 4 691 |
| Paid during the year relating to prior year | **(4 691)** | – |
| | **–** | 4 691 |
| Number of shares in issue | **156 379** | 156 379 |
| Dividends per share (cents) | **–** | 3,0 |

| | Group 2010 R'000 | Group 2009 R'000 | Company 2010 R'000 | Company 2009 R'000 |
|---|---|---|---|---|
| **28. CASH GENERATED FROM (USED IN) OPERATIONS** | | | | |
| Profit/(loss) before taxation | **76 743** | 44 471 | **5 160** | (192) |
| **Adjustments for:** | | | | |
| Depreciation and amortisation | **18 388** | 18 157 | **–** | – |
| (Profit)/loss on sale of property, plant and equipment | **(245)** | 6 079 | **–** | – |
| Finance income | **(1 701)** | (2 843) | **(154)** | (36) |
| Finance costs | **13 455** | 18 531 | **–** | – |
| Derivate financial instrument | **680** | – | **–** | – |
| Share-based payment liability | **7 380** | – | **4 186** | – |
| **Changes in working capital:** | | | | |
| Inventories | **(41 915)** | 43 142 | **–** | – |
| Trade and other receivables | **(7 473)** | 51 198 | **3 910** | (5 199) |
| Trade and other payables | **18 451** | (27 093) | **1 163** | 1 664 |
| | **83 763** | 151 642 | **14 265** | (3 763) |

| | Group | | Company | |
|---|---|---|---|---|
| | **2010 R'000** | **2009 R'000** | **2010 R'000** | **2009 R'000** |
| **29. INTEREST PAID** | | | | |
| Amount owing at the beginning of the year | **–** | (1 019) | **–** | – |
| Charged to statement of comprehensive income | **(13 455)** | (18 531) | **–** | – |
| Amount owing at the end of the year | **–** | – | **–** | – |
| | **(13 455)** | (19 550) | **–** | – |
| **30. TAXATION PAID** | | | | |
| Net amounts owing at the beginning of the year | **(2 432)** | (6 870) | **–** | – |
| Charged to statements of comprehensive income | **(22 519)** | (15 493) | **(469)** | – |
| Net amounts owing at the end of the year | **495** | 2 432 | **–** | – |
| | **(24 456)** | (19 931) | **(469)** | – |
| **31. DIVIDENDS PAID** | | | | |
| Balance at the beginning of the year | **(4)** | (4) | **(4)** | (4) |
| Dividends | **(4 691)** | – | **(4 691)** | – |
| Balance at the end of the year | **4** | 4 | **4** | 4 |
| | **(4 691)** | – | **(4 691)** | – |
| **32. PROCEEDS ON DISPOSAL OF PROPERTY, PLANT AND EQUIPMENT** | | | | |
| Net book amount of assets disposed of | **204** | 20 839 | **–** | – |
| Surplus/(deficit) on disposal | **245** | (6 079) | **–** | – |
| | **449** | 14 760 | **–** | – |

## 33. FINANCIAL RISK MANAGEMENT

### Financial risk factors

The group's activities expose it to a variety of financial risks: market risk, credit risk and liquidity risk. The group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the group's financial performance. Risk management is carried out under policies approved by management.

### Capital risk management

The group's objectives when managing capital are to safeguard the group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. The executive directors are involved in the daily operations of the group, and the necessary decisions regarding capital risk management are made as and when necessary.

The group monitors capital on the basis of the gearing ratio. This ratio is calculated as total debt plus net overdraft divided by total equity. The group's strategy was to maintain the gearing ratio below 50%. At 31 December 2010, the gearing ratio was 14,6% (2009: 30%). The gearing ratio declined primarily as a result of the settlement of liabilities.

### Liquidity risk

The group manages liquidity risk by monitoring forecast cash flows and ensuring that adequate unutilised borrowing facilities are maintained. Due to the dynamic nature of the underlying businesses, the group aims to maintain flexibility in funding by keeping committed credit lines available. Details of liquidity analysis are disclosed in notes 13 and 16. The table below shows the credit limit and balances of the major counter parties at the reporting date:

## 33. FINANCIAL RISK MANAGEMENT continued

| Group<br>Counter party | 2010<br>Credit limit<br>R'000 | 2010<br>Balance<br>R'000 | 2009<br>Credit limit<br>R'000 | 2009<br>Balance<br>R'000 |
|---|---|---|---|---|
| First National Bank Limited | **75 000** | **–** | 95 000 | (5 855) |
| Investec Bank Limited | **10 000** | **(9 827)** | 20 000 | – |

The table below analyses the group's financial liabilities and net settled derivative financial liabilities into relevant maturity groupings based on the remaining period at the statement of financial position to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

| Group | Less than 1 year<br>R'000 | Between 1 and<br>2 years<br>R'000 | Between 2 and<br>5 years<br>R'000 |
|---|---|---|---|
| **At 31 December 2010** | | | |
| Interest bearing borrowings | **43 907** | **40 002** | **36 369** |
| Trade and other payables | **72 572** | **–** | **–** |
| Dividend payable | **4** | **–** | **–** |
| Derivative financial instruments | **680** | **–** | **–** |
| Bank overdraft | **9 827** | **–** | **–** |
| **At 31 December 2009** | | | |
| Interest bearing borrowings | 46 571 | 42 637 | 74 521 |
| Trade and other payables | 46 655 | – | – |
| Dividend payable | 4 | – | – |
| Bank overdraft | 5 855 | – | – |
| **Company** | | | |
| **At 31 December 2010** | | | |
| Trade and other payables | **1 132** | **–** | **–** |
| Amounts owing to group companies | **2 999** | **–** | **–** |
| Dividends payable | **4** | **–** | **–** |
| **At 31 December 2009** | | | |
| Trade and other payables | 735 | – | – |
| Amounts owing to group companies | 8 096 | – | – |
| Dividend payable | 4 | – | – |

### Credit risk

Potential concentrations of credit risk consist primarily of cash investments and trade receivables. Trade receivables consist of a large number of customers spread across diverse industries and geographical areas. The group has policies in place to ensure that sales are made to customers with an appropriate credit history and in most instances, utilises credit insurance. The ongoing creditworthiness of the trade receivables is assessed from time to time. Details of credit risk for trade receivables is disclosed in note 8.

The group limits its exposure arising from the money market by dealing with well established financial institutions of high standing.

## 33. FINANCIAL RISK MANAGEMENT continued

### Foreign exchange risk

The group operates and trades internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to United States Dollars. The group buys its major machinery and the majority of the light fittings and accessories in United States Dollars. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities when they are denominated in a currency that is not the entity's functional currency. Entities within the group use forward exchange contracts to manage their foreign exchange risk arising from future commercial transactions, recognised assets and liabilities. In general, the group's policy is to enter into forward foreign exchange contracts as and when required by the businesses and these are limited to orders placed with suppliers.

At 31 December 2010, if the currency had weakened/strengthened against the United States Dollar by 4% with all other variables held constant, profit after tax would have decreased/increased by R1 159 690 (2009: R551 894), mainly as a result of foreign exchange gains/losses on translation of trade payables. A sensitivity analysis has not been performed on other foreign currency exposures as it is not considered to have a material impact on the profit after tax.

### Foreign currency exposure at the end of the reporting period

**Foreign currency exposure**

The following foreign currency liabilities and assets are recognised in the group statement of financial position:

| | **2010 Foreign currency '000** | **2010 Rand equivalent R'000** | 2009 Foreign currency '000 | 2009 Rand equivalent R'000 |
|---|---|---|---|---|
| **Assets – bank accounts** | | | | |
| United States Dollar | **448** | **2 969** | 28 | 208 |
| **Liabilities – trade payables** | | | | |
| United States Dollar | **6 045** | **40 138** | 2 561 | 19 018 |
| European Euros | **14** | **129** | 14 | 145 |
| | | **40 267** | | 19 163 |

**At year end the group had entered into the following forward exchange contracts:**

| | **Settlement dates** | **Foreign currency US$ '000** | **Rand equivalent R'000** |
|---|---|---|---|
| **2010** | 05 January 2011 | **2 282** | **15 692** |
| | 05 January 2011 | **665** | **4 572** |
| **2009** | 04 January 2010 | 360 | 2 703 |
| | 05 January 2010 | 300 | 2 214 |
| | 21 January 2010 | 87 | 658 |

## 33. FINANCIAL RISK MANAGEMENT continued

### Price risk

The group is exposed to commodity price risk with regards to the price of copper. Copper price risk arises from the risk of an adverse effect on current or future earnings resulting from fluctuations in the price of copper. The copper market is predominantly priced in United States Dollars which exposes the group to the risk that fluctuations in the South African Rand/United States Dollars exchange rates may also have on current or future earnings. The company does not have specific procedures in place to manage this risk; however management plans to keep inventory levels as low as possible. Any change in the price of the copper price has an impact on both sales values and purchase values. The group is not exposed to equity securities price risk, as the group did not hold any equity securities as at 31 December 2010.

**Cash flow and fair value interest rate risk**

As the group has no significant interest bearing assets, the group's income is substantially independent of changes in market interest rates. The group's interest rate risk arises from long-term and current borrowings. Borrowings issued at fixed rates expose the group to fair value interest rate risk. Borrowings issued at variable rates expose the group to cash flow interest rate risk. The interest rates are monitored on a daily basis and any additional or available cash resources are redirected towards reducing the interest bearing debts. Details of interest rates on borrowings are disclosed in notes 10 and 13.

All group borrowings are denominated in South African Rands. The group has no specific processes in place to manage cash flow risks. Interest rate exposure is not analysed on a specific basis but should the interest rates increase/decrease by 2% the profit after tax will decrease/increase by R1 541 362 (2009: R1 992 312).

### Fair value estimation

The carrying value less impairment provision of trade receivables and payables and interest free loans receivable 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 group for similar financial instruments.

| | Group Carrying value R'000 | Group Fair value R'000 | Company Carrying value R'000 | Company Fair value R'000 |
|---|---|---|---|---|
| **2010** | | | | |
| Trade and other receivables | **125 557** | **125 557** | **3 462** | **3 462** |
| Amount owing by subsidiaries | **–** | **–** | **4 216** | **4 216** |
| Cash and cash equivalents | **44 568** | **44 568** | **1 418** | **1 418** |
| Trade and other payables | **(72 572)** | **(72 572)** | **(1 132)** | **(1 132)** |
| Interest bearing borrowings | **(107 039)** | **(107 039)** | **–** | **–** |
| Amounts owing to subsidiaries | **–** | **–** | **(2 999)** | **(2 999)** |
| Shareholders for dividends | **(4)** | **(4)** | **(4)** | **(4)** |
| Derivative financial instrument | **(680)** | **(680)** | **–** | **–** |
| Bank overdraft | **(9 827)** | **(9 827)** | **–** | **–** |
| **2009** | | | | |
| Trade and other receivables | 125 846 | 119 831 | 7 661 | 7 661 |
| Cash and cash equivalents | 64 261 | 64 261 | 1 482 | 1 482 |
| Interest bearing borrowings | (138 355) | (138 355) | – | – |
| Trade and other payables | (46 655) | (46 655) | (735) | (735) |
| Amounts owing to subsidiaries | – | – | (8 096) | (8 096) |
| Shareholders for dividends | (4) | (4) | (4) | (4) |
| Bank overdraft | (5 855) | (5 855) | – | – |

| | Group | | Company | |
|---|---|---|---|---|
| | **2010 R'000** | **2009 R'000** | **2010 R'000** | **2009 R'000** |
| **34. COMMITMENTS** | | | | |
| Capital commitments | | | | |
| Authorised and not contracted for | **15 098** | 8 415 | **–** | – |
| Authorised and contracted for | **25 384** | 18 310 | **–** | – |
| | **40 482** | 26 725 | **–** | – |
| The expenditure will be financed from new credit facilities from First National Bank, a division of FirstRand Bank Limited. | | | | |

## 35. RELATED PARTIES

**Transactions between group companies**

In the ordinary course of business, the companies in the group entered into transactions with each other. These intergroup transactions have been eliminated on consolidation. The following transactions were entered into between the company and its subsidiaries during the year:

| | Company 2010 R'000 | Company 2009 R'000 |
|---|---|---|
| **Related party transactions** | | |
| **Interest received from related parties** | | |
| Anchor Park Investments 48 (Proprietary) Limited | **94** | – |
| | **94** | – |
| **Administration fees received from related parties** | | |
| South Ocean Electric Wire Company (Proprietary) Limited | **5 594** | 7 443 |
| Radiant Group (Proprietary) Limited | **8 086** | 5 237 |
| | **13 680** | 12 680 |
| **Dividends received** | | |
| South Ocean Electric Wire Company (Proprietary) Limited | **3 184** | – |
| Radiant Group (Proprietary) Limited | **3 991** | – |
| | **7 175** | – |

Details of amounts owing to/by subsidiaries are disclosed in notes 8 and 9. No impairment has been recognised in respect of related party balances.

### Transactions with directors

Details relating to the directors' remuneration and interests are disclosed in note 22 of the financial statements and in the directors' report.

The directors have certified that they are not materially interested in any transactions of any significance with the company or its subsidiaries.

## 36. INTEREST IN SUBSIDIARIES

| Direct holdings | Issued share capital and proportion held 2010 % | 2009 % | Shares at cost 2010 R'000 | Shares at cost 2009 R'000 | Indebtedness by/(to) 2010 R'000 | Indebtedness by/(to) 2009 R'000 |
|---|---|---|---|---|---|---|
| South Ocean Electric Wire Company (Proprietary) Limited | **100** | 100 | **712 165** | 712 165 | **(2 999)** | (8 096) |
| Radiant Group (Proprietary) Limited | **100** | 100 | **488 038** | 488 038 | **892** | – |
| Radiant Matla Renewable Energy Corporation (Proprietary) Limited | **55** | – | ***** | – | ***** | – |
| Anchor Park Investments 48 (Proprietary) Limited | **100** | 100 | ***** | * | **3 324** | |
| | | | **1 200 203** | 1 200 203 | **1 217** | (8 096) |
| Less: Dividends received from pre-acquisition profits | | | **(84 750)** | (84 750) | **–** | – |
| Less: Impairment | | | **(98 990)** | (98 990) | **–** | – |
| | | | **1 016 463** | 1 016 463 | **1 217** | (8 096) |

** Denotes amounts of less than R1 000*

| Indirect holdings | Issued share capital and proportion held 2010 | 2009 | Nature of business |
|---|---|---|---|
| Radiant Lighting (Proprietary) Limited | **100** | 100 | Dormant |
| Lohuis Properties (Proprietary) Limited | **100** | 100 | Dormant |
| Lohuis SA (Proprietary) Limited | **100** | 100 | Dormant |
| Ripple Effect 55 (Proprietary) Limited | **100** | 100 | Dormant |
| Wild Break 116 (Proprietary) Limited | **100** | 100 | Dormant |
| Razz Ma Tazz Lighting (Proprietary) Limited | **100** | 100 | Dormant |
| Diaspara Developers (Proprietary) Limited | **100** | 100 | Dormant |
| Stand 53 Atlas Gardens (Proprietary) Limited | **100** | 100 | Dormant |
| Stand 431 Wynberg (Proprietary) Limited | **100** | 100 | Dormant |
| Radiant Lighting and Electrical International Limited** | **100** | 100 | Trading |

*** Incorporated in Hong Kong*

# NOTES TO THE FINANCIAL STATEMENTS continued

FOR THE YEAR ENDED 31 DECEMBER 2010

## 37. SEGMENTAL REPORTING

The group is organised into three main business segments:

1. Electrical wires – manufacturing and distribution of electric wire;
2. Lighting and electrical accessories – import and distribution of light fittings, lamps and electrical accessories; and
3. Property investments.

The chief operating decision-maker, who has been identified as the group's executive committee, reviews the group's internal reporting in order to assess performance and has determined the operating segments based on these reports.

The assessment of the performance of the operating segments is based on the operating profit before interest, tax, depreciation and amortisation (EBITDA) and investment in working capital. This measurement basis excludes the effect of non-recurring expenditure from the operating segments, such as restructuring costs, profit on disposal of property, plant and equipment and impairments.

The reported total assets and liabilities exclude available-for-sale financial assets and deferred taxation.

The details of the business segments are reported as follows:

| | Revenue R'000 | Adjusted EBITDA R'000 | Segment assets R'000 | Segment liabilities R'000 |
|---|---|---|---|---|
| **2010** | | | | |
| Electrical wires | **777 133** | **62 412** | **233 846** | **23 066** |
| Lighting and electrical accessories | **360 998** | **44 845** | **549 920** | **100 087** |
| Property investments | **17 550** | **15 477** | **182 804** | **70 101** |
| | **1 155 681** | **122 734** | **966 570** | **193 254** |
| **2009** | | | | |
| Electrical wires | 591 939 | 35 975 | 227 059 | 34 976 |
| Lightning and electrical accessories | 366 033 | 46 234 | 530 874 | 78 261 |
| Property investments | 17 213 | 9 015 | 162 816 | 86 153 |
| | 975 185 | 91 224 | 920 749 | 199 390 |

Segment assets consist primarily of property, plant and equipment, intangible assets, inventories, receivables and operating cash. Segment assets exclude available-for-sale financial assets and any inter-group loans existing at reporting date.

Segment liabilities comprises operating liabilities, and exclude current and deferred taxation and any inter-group liabilities existing at reporting date.

| | Group | |
|---|---|---|
| | **2010 R'000** | 2009 R'000 |
| **37. SEGMENTAL REPORTING continued** | | |
| Reconciliation of segment results to statements of comprehensive income and financial position | | |
| **Revenue** | | |
| Reported segment revenue | **1 155 681** | 975 185 |
| Inter-group revenue (property rentals) | **(16 041)** | (16 000) |
| Property revenue disclosed in other income | **(1 510)** | (1 213) |
| **Revenue per consolidated statement of comprehensive income** | **1 138 130** | 957 972 |
| **EBITDA** | | |
| Adjusted EBITDA | **122 734** | 91 224 |
| Corporate overheads | **(15 849)** | (12 908) |
| Depreciation | **(13 863)** | (13 894) |
| Amortisation of intangible assets | **(4 525)** | (4 263) |
| **Operating profit** | **88 497** | 60 159 |
| Operating profit | **88 497** | 60 159 |
| Finance income | **1 701** | 2 843 |
| Finance costs | **(13 455)** | (18 531) |
| **Profit before taxation** | **76 743** | 44 471 |
| **Assets** | | |
| Reportable segment assets | **966 570** | 920 749 |
| Corporate assets | **1 718** | 1 482 |
| Taxation receivable | **1 353** | 1 948 |
| **Total assets per statement of financial position** | **969 641** | 924 179 |
| **Liabilities** | | |
| Reportable segment liabilities | **193 254** | 199 390 |
| Corporate liabilities | **9 122** | 3 819 |
| Deferred tax | **28 566** | 26 818 |
| Taxation payable | **1 848** | 4 380 |
| **Total liabilities per statement of financial position** | **232 790** | 234 407 |

The group operates primarily in South Africa. No geographical segmental information is disclosed as there are no separately defined segments that contribute more than 10% of revenue, results or assets.

# ANALYSIS OF ORDINARY SHAREHOLDERS

AT 31 DECEMBER 2010

| | Number of shareholders | % of total shareholders | Shares Held | % Held |
|---|---|---|---|---|
| **Shareholder Spread** | | | | |
| 1 – 1 000 Shares | 208 | 20.37% | 126 103 | 0.08% |
| 1 001 – 10 000 Shares | 485 | 47.50% | 2 231 329 | 1.43% |
| 10 001 – 100 000 Shares | 239 | 23.41% | 8 588 991 | 5.49% |
| 100 001 – 1 000 000 Shares | 65 | 6.37% | 19 979 940 | 12.78% |
| 1 000 001 Shares and over | 24 | 2.35% | 125 452 431 | 80.22% |
| Total | 1 021 | 100.00% | 156 378 794 | 100.00% |
| **Distribution of Shareholders** | | | | |
| Public companies | 3 | 0,29% | 53 863 069 | 34,44% |
| Trusts | 96 | 9,40% | 27 145 377 | 17,36% |
| Retail shareholders | 784 | 76,79% | 31 924 721 | 20,42% |
| Collective investment schemes | 7 | 0,69% | 10 260 778 | 6,56% |
| Hedge funds | 8 | 0,78% | 13 924 826 | 8,90% |
| Custodians | 4 | 0,39% | 5 475 831 | 3,50% |
| Foundations and charitable funds | 15 | 1,47% | 3 846 767 | 2,46% |
| Retirement benefit funds | 29 | 2,84% | 5 159 552 | 3,30% |
| Private companies | 31 | 3,04% | 3 537 843 | 2,26% |
| Stockbrokers and nominees | 6 | 0,59% | 461 194 | 0,30% |
| Close corporations | 23 | 2,25% | 532 418 | 0,34% |
| Investment partnerships | 13 | 1,27% | 207 173 | 0,13% |
| Medical aid funds | 1 | 0,10% | 26 400 | 0,02% |
| Insurance companies | 1 | 0,10% | 12 845 | 0,01% |
| Total | 1 021 | 100,00% | 156 378 794 | 100,00% |
| **Shareholder Type** | | | | |
| Non-public shareholders | 5 | 0,49% | 54 437 407 | 34,81% |
| Directors and associates of the company (direct holding) | 3 | 0,29% | 6 632 925 | 4,24% |
| Directors and associates of the company (indirect holding) | 1 | 0,10% | 27 734 563 | 17,74% |
| Holders holding more than 10% (excluding directors holding) | | | | |
| Metallic City International Ltd | 1 | 0,10% | 20 069 919 | 12,83% |
| Public shareholders | 1 016 | 99,51% | 101 941 387 | 65,19% |
| Total | 1 021 | 100,00% | 156 378 794 | 100,00% |

| | Total Shareholding | % Held |
|---|---|---|
| Beneficial shareholding (>5%) | | |
| Hong-Tai Electric Industrial Company Ltd | 31 773 150 | 20,32% |
| Metallic City International Ltd | 20 069 919 | 12,83% |
| H.S. Family Trust | 14 245 992 | 9,11% |
| Peregrine Capital | 12 446 646 | 7,96% |
| Investec Asset Management | 9 815 130 | 6,28% |
| Total | 88 350 837 | 56,50% |

# NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the fourth annual general meeting of shareholders of South Ocean Holdings Limited ("the Company") for the financial year ended 31 December 2010 will be held in the Boardroom, 16 Botha Street, Alrode on Wednesday, 22 June 2011 at 10h00. To ensure that registration procedures are completed by 10h00, please register for the annual general meeting from 09h30.

The purpose of the annual general meeting is to propose the passing of the following ordinary and special resolutions:

## Ordinary resolution number 1

### Approval of annual financial statements

**Resolved that** the annual financial statements of the Company and its subsidiaries for the year ended 31 December 2010 be and they are hereby adopted.

## Ordinary resolution number 2

### Appointment of auditors

**Resolved that** PricewaterhouseCoopers Inc. be and they are hereby re-appointed the auditors of the Company, and that Ms P Pope is hereby appointed as the designated auditor to hold office for the current year.

The Company's Audit Committee had recommended the re-appointment of PricewaterhouseCoopers Inc. as auditors of the Company with Ms P Pope being appointed as the designated auditor for the current financial year.

## Ordinary resolution number 3

### Appointment of Mr EG Dube as a director

**Resolved that** Mr EG Dube retires in terms of the Company's Memorandum of Incorporation (MOI) (previously Memorandum and Articles of Association) and, being eligible, offers himself for re-election.

Mr Dube's curriculum vitae is presented on page 10 of this annual report.

## Ordinary resolution number 4

### Appointment of Mr CY Wu as a director

**Resolved that** Mr CY Wu retires in terms of the Company's Memorandum of Incorporation (MOI) (previously Memorandum and Articles of Association) and, being eligible, offers himself for re-election as a director of the Company.

Mr Wu's curriculum vitae is presented on page 10 of this annual report.

## Ordinary resolution number 5

### Appointment of Ms D Tam as a director

**Resolved that** Ms DL Tam retires in terms of the Company's Memorandum of Incorporation (MOI) (previously Memorandum and Articles of Association) and, being eligible, offers herself for re-election as a director of the Company.

Ms Tam's curriculum vitae is presented on page 11 of this annual report.

## Ordinary resolution number 6

### Appointment of Audit and Risk Management Committee members

**Resolved that** Mr KH Pon (Chairman), Ms M Chong, Ms DL Tam and Mr CY Wu be appointed as the Company's Audit and Risk Management Committee members and which appointment shall be valid up to the date of the next annual general meeting of the Company.

## Ordinary resolution number 7

### Approval of remuneration report for the financial year ended 31 December 2010

The Remuneration report for the financial year ended 31 December 2010, as set out in the financial statements accompanying this notice of the annual general meeting will be tabled at the annual general meeting.

As a non-binding advisory vote, "It is hereby **Resolved that** the Remuneration report be and is hereby approved."

As this is not a matter that is required to be resolved or approved by shareholders, no minimum voting threshold is required. Nevertheless, for record purposes, the minimum percentage of voting rights that is required for this resolution to be adopted as a non-binding advisory vote is 50% (fifty percent) of the voting rights plus 1 (one) vote to be cast on the resolution.

## Special resolution number 1

### Approval of non-executive directors' fees for the financial year ending 31 December 2011.

Resolved that that the non-executive directors' fees, to be paid to the directors in their capacity as non-executive directors only, for the year ending 31 December 2011 be as follows:

| | |
|---|---|
| • Chairman of the board | R346 680 |
| • Non-executive director | R115 560 |
| • Chairman of the Audit committee | R173 340 |
| • Member of the Audit Committee | R37 450 |
| • Chairman of the Remuneration Committee | R53 500 |
| • Member of the Remuneration Committee | R37 450 |
| • Chairman of a special committee | R2 500/hour |
| • Member of a special committee | R1 500/hour |

The reason for this special resolution is to obtain shareholder approval for the remuneration of each of the non-executive directors of the Company for the year ending 31 December 2011 in accordance with section 66(9) of the 2008 Companies Act. The passing of this special resolution will have the effect of approving the remuneration of each of the non-executive directors of the Company for the year ending 31 December 2011 in accordance with section 66(9) of the 2008 Companies Act.

## Special resolution number 2

### Approval of loans or other financial assistance

**Resolved that** the Board of directors may authorise the Company to provide direct or indirect financial assistance to a director or prescribed officer of the Company or of a related or inter-related company, or to a related or inter-related company, or to a member of a related or inter-related company, or to a person related to any such company, director, prescribed officer or member, pursuant to the authority hereby conferred upon the Board of directors for these purposes.

The reason for this special resolution number 2 is to approve generally the provision of financial assistance to the potential recipients as set out in this Special resolution number 2.

## Ordinary resolution number 8

### General authority over unissued shares

**Resolved that** all the issued shares in the unissued authorised ordinary shares in the Company be and are hereby placed under the control of the directors until the date of the next annual general meeting, subject to the provisions of the JSE Listings Requirements and the condition that no issue of these shares will be made if it could have the effect of changing control of the Company.

No issue of these shares is contemplated at the present time and no issue will be made that could effectively change the control of the Company without the prior approval of shareholders in a general meeting.

## Ordinary resolution number 9

### General authority to issue shares for cash

**Resolved that** the directors of the Company be and are hereby authorised by way of a general authority to issue for cash (as contemplated in the JSE Listings Requirements) up to 15% of the authorised but unissued shares in the capital of the Company as and when they in their discretion deem fit, subject to the Companies Act, No. 71 of 2008, as amended, the Memorandum of Incorporation of the Company and the JSE Listings Requirements as presently constituted and which may be amended from time to time.

The reason for the above ordinary resolution number 9 is to give the directors authority to issue up to 15% of the unissued shares for cash in order to pursue suitable BEE partners.

### Additional requirements imposed by the JSE Listings Requirements

It is recorded that the Company may only make an issue of shares (as defined in the JSE Listings Requirements) for cash under the above general authority if the following JSE Listings Requirements are met:

a. the shares, which are the subject of the issue for cash, must be of a class already in issue, or where this is not the case, must be limited to such equity securities or rights that are convertible into a class already in issue;
b. the general authority shall only be valid until the Company's next annual general meeting or for 15 (fifteen) months from the date of passing of this ordinary resolution, whichever period is shorter;
c. a paid press announcement will be published giving full details, including the number of shares issued, the average discount to the weighted average traded price of the shares over the 30 (thirty) days prior to the date that the price of the issue was agreed in writing between the Company and party/ies subscribing for such shares and the expected effect on the net asset value per share, net tangible asset value per share, earnings per share and headline earnings per share at the time of any issue representing, on a cumulative basis within 1 (one) financial year, 5% (five percent) of the number of shares in issue prior to that issue;
d. that issues in the aggregate in any 1 (one) financial year may not exceed 5% (five percent) of the number of the shares of the Company in issue of that class of shares before such issue, taking into account the dilution effect of convertible equity securities and options in accordance with the JSE Listings Requirements;
e. in determining the price at which an issue of shares may be made in terms of this general authority, the maximum discount permitted will be 10% (ten percent) of the weighted average traded price on the JSE of those shares measured over the 30 (thirty) business days prior to the date that the price of the issue is agreed to between the Company and the party/ies subscribing for the shares; and
f. any issue will only be made to "public shareholders" as defined by the JSE Listings Requirements and not to related parties.

## Ordinary resolution number 10

### Directors' or Company Secretary's authority to implement special and ordinary resolutions

**Resolved that** that each and every director of the Company or the Company Secretary be and is hereby authorised to do all such things and sign all such documents as may be necessary for or incidental to the implementation of the resolutions passed at this meeting.

### General instructions and information

The annual report to which this notice of annual general meeting is attached provides details of:

- the directors of the Company on pages 10 to 11;
- the major shareholders of the Company on page 89;
- the directors' shareholding in the Company on page 45;
- the share capital of the Company in note 11 on page 71; and
- an analysis of the shareholders (including an analysis of the beneficial shareholders) on page 89.

There are no material changes to the company's financial or trading position, nor are there any material, legal or arbitration proceedings (pending or threatened) that may affect the financial position of the Company between 31 December 2010 and 28 February 2011.

The directors, whose names are given on pages 10 to 11 of the annual report, collectively and individually accept full responsibility for the accuracy of the information given and certify that to the best of their knowledge and belief there are no facts that have been omitted which would make any statement false or misleading, and that all reasonable enquiries to ascertain such facts have been made and that the annual report and this notice contains all information required by law and the JSE Listings Requirements.

All shareholders are encouraged to attend, speak and vote at the annual general meeting.

### Entitlement to attend and vote at the annual general meeting in person or by proxy

If you hold certificated shares (i.e. have not dematerialised your shares in the Company) or are registered as an own name dematerialised shareholder (i.e. have specifically instructed your Central Securities Depository Participant ("CSDP") to hold your shares in your own name in the Company subregister) then:

- you may attend and vote at the annual general meeting; alternatively
- you may appoint an individual as a proxy, (who need not also be a shareholder of the Company) to attend, participate in and speak and vote in your place at the annual general meeting by completing the attached form of proxy and returning it to the registered office of the Company or to the transfer secretaries, Computershare Investor Services (Proprietary) Limited, the details of which are set out on the inside back cover of the annual report, by no later than 09h30 on Monday 20 June 2011, being 48 (forty-eight) hours prior to the time appointed for the holding of the annual general meeting. Please note that your proxy may delegate his/her authority to act on your behalf to another person, subject to the restrictions set out in the attached form of proxy. The attached form of proxy must be delivered to the registered office of the Company or to the transfer secretaries, Computershare Investor Services (Proprietary) Limited as aforesaid, before your proxy may exercise any of your rights as a shareholder at the annual general meeting.

Any shareholder of the Company that is a company may authorise any person to act as its representative at the annual general meeting. Please also note that section 63(1) of the 2008 Companies Act, requires that persons wishing to participate in the annual general meeting (including the aforementioned representative) provide satisfactory identification before they may so participate.

If you are the owner of dematerialised shares (i.e. have replaced the paper share certificates representing the shares with electronic records of ownership under the JSE's electronic settlement system, Share Transactions Totally Electronic ("STRATE")) held through a CSDP or broker (or their nominee) and are not registered as an "own name dematerialised shareholder" then you are not a registered shareholder of the Company, but your CSDP or broker (or their nominee) would be.

Accordingly, in these circumstances, subject to the mandate between yourself and your CSDP or broker as the case may be:

- if you wish to attend the annual general meeting you must contact your CSDP or broker, as the case may be, and obtain the relevant letter of representation from it; alternatively
- if you are unable to attend the annual general meeting but wish to be represented at the meeting, you must contact your CSDP or broker, as the case may be, and furnish it with your voting instructions in respect of the annual general meeting and/or request it to appoint a proxy. You must not complete the attached form of proxy. The instructions must be provided in accordance with the mandate between yourself and your CSDP or broker, as the case may be, within the time period required by your CSDP or broker, as the case may be.

CSDP's, brokers or their nominees, as the case may be, recorded in the Company's sub-register as holders of dematerialised shares held on behalf of an investor/beneficial owner in terms of STRATE should, when authorised in terms of their mandate or instructed to do so by the owner on behalf of whom they hold dematerialised shares in the Company, vote by either appointing a duly authorised representative to attend and vote at the annual general meeting or by completing the attached form of proxy in accordance with the instructions thereon and returning it to the registered office of the Company or to the transfer secretaries, Computershare Investor Services (Proprietary) Limited, the details of which are set out on the inside back cover of the annual report, by no later than 10h00 on Monday, 20 June 2011, being 48 (forty-eight) hours prior to the time appointed for the holding of the annual general meeting.

Shareholders of the Company who wish to participate in the annual general meeting should note that any shareholder of the Company that is a company may authorise any person to act as its representative at the annual general meeting. Please also note that section 63(1) of the 2008 Companies Act, requires that persons wishing to participate in the annual general meeting (including the aforementioned representative) must provide satisfactory identification before they may so participate.

By order of the board

**WT Green**
*Company Secretary*

Johannesburg
30 May 2011

# SHAREHOLDERS' DIARY

FOR THE YEAR ENDED 31 DECEMBER 2010

## 2011 financial year-end

| | |
|---|---|
| Annual General Meeting | 22 June 2011 |

## 2011 financial year-end

| | |
|---|---|
| Financial year-end | 31 December |

## Reports

| | |
|---|---|
| Interim report and declaration of interim dividend | August 2011 |
| Final results | March 2012 |
| Publication of annual report | May 2012 |

## Dividend payments

| | |
|---|---|
| Final | April 2012 |
| Annual General Meeting | June 2012 |

# FORM OF PROXY

Form of proxy for use at the annual general meeting of South Ocean Holdings Limited ("the Company") to be held in the boardroom, 16 Botha Street, Alrode at 10h00 on Wednesday, 22 June 2011.

This form of proxy is not to be used by beneficial owners of shares who have dematerialised their shares ("dematerialised shares") through a Central Securities Depository Participant ("CSDP") or broker, as the case may be, unless you are recorded on the subregister as an own name dematerialised shareholder. Generally, you will not be an own name dematerialised shareholder unless you have specifically requested your CSDP to record you as the holder of the shares in your own name in the Company's sub-register.

This form of proxy is only for use by certificated, own name dematerialised shareholders and CSDP's or brokers (or their nominees) registered in the Company's subregister as the holder of dematerialised ordinary shares.

Each shareholder entitled to attend and vote at the annual general meeting is entitled to appoint a proxy (who need not also be a shareholder of the Company) to attend, participate in and speak and vote in place of that shareholder at the annual general meeting, and at any adjournment thereafter.

Please note the following:

- The appointment of your proxy may be suspended at any time to the extent that you choose to act directly and in person in the exercise of your rights as a shareholder at the annual general meeting;
- the appointment of the proxy is revocable; and
- you may revoke the proxy appointment by (i) cancelling it in writing, or making a later inconsistent appointment of a proxy; and (ii) delivering a copy of the revocation instrument to the proxy, and to the Company.

Please note that any shareholder of the Company that is a company may authorise any person to act as its representative at the annual general meeting. Please also note that section 63(1) of the 2008 Companies Act, requires that persons wishing to participate in the annual general meeting (including the aforementioned representative) provide satisfactory identification before they may so participate.

Note that voting will be performed by way of a poll so each shareholder present or represented by way of proxy will be entitled to vote.

I/We

(block letters)

of

Telephone: Work (                ) Telephone: Home (                )

being the holder/s of ________ ordinary shares in the Company, hereby appoint (refer to note 1)

1. or failing him/her,

2. or failing him/her,

3. the Chairman of the annual general meeting,

as my/our proxy to attend, participate in and speak and vote at the meeting in my/our place and on my/our behalf at the annual general meeting which will be held for the purpose of considering and, if deemed fit, passing the resolutions to be proposed thereat and at any adjournment thereof and to vote for or against such resolutions or to abstain from voting in respect of the shares in the issued capital of the Company registered in my/our name/s, in accordance with the instructions set out below (refer to note 2).

My/our proxy may delegate to another person his/her authority to act on my behalf at the annual general meeting, provided that my/our proxy –

- may only delegate his/her authority to act on my behalf at the general meeting to a director of the Company; and
- must provide written notification to the transfer secretaries of the Company, namely Computershare Investor Services (Proprietary) Limited, of the delegation by my/our proxy of his/her authority to act on my behalf at the general meeting by no later than 10h00 on Monday, 20 June 2011, being 48 (forty eight) hours before the general meeting to be held at 10h00 on Wednesday, 22 June 2011; and
- must provide to his/her delegee a copy of his/her authority to delegate his/her authority to act on my behalf at the general meeting.

# FORM OF PROXY

| Number of votes (one vote per ordinary share) | For | Against | Abstain |
|---|---|---|---|
| Ordinary resolution number 1:<br>Approval of annual financial statements for the year ended 31 December 2010 | | | |
| Ordinary resolution number 2:<br>Appointment of PricewaterhouseCoopers Inc. as auditors and Ms P Pope as a designated auditor | | | |
| Ordinary resolution number 3:<br>Appointment of Mr EG Dube as a director | | | |
| Ordinary resolution number 4:<br>Appointment of Mr CY Wu as a director | | | |
| Ordinary resolution number 5:<br>Appointment of Ms DL Tam as a director | | | |
| Ordinary resolution number 6:<br>Appointment of Audit and Risk Management Committee members | | | |
| Ordinary resolution number 7:<br>Non-binding advisory approval of remuneration report for the financial year ended 31 December 2010 | | | |
| Special resolution number 1:<br>Approval of non-executive directors' fees for the financial year ending 31 December 2011 | | | |
| Special resolution number 2:<br>Approval loans or other financial assistance | | | |
| Ordinary resolution number 8:<br>Placing unissued shares under the control of the directors | | | |
| Ordinary resolution number 9:<br>General authority to issue shares for cash | | | |
| Ordinary resolution number 10:<br>Directors' or Company Secretary's authority to implement special and ordinary resolutions | | | |

Insert an "X" in the relevant spaces above according to how you wish your votes to be cast. If you wish to cast your votes in respect of a lesser number of shares than you own in the Company, insert the number of shares held in respect of which you desire to vote (see note 3).

Signed at on 2011

Signature

(Authority of signatory to be attached if applicable – see note 7)

Assisted by me (where applicable – see note 9) Telephone number

**Summary of shareholders' rights in respect of proxy appointments as contained in section 58 of the 2008 Companies Act**

Please note that in terms of section 58 of the 2008 Companies Act –

- this proxy form must be dated and signed by the shareholder appointing the proxy;
- you may appoint an individual as a proxy, including an individual who is not a shareholder of the Company, to participate in and speak and vote at an annual general meeting on our behalf;
- your proxy may delegate his/her authority to act on your behalf to another person, subject to any restriction set out in this proxy form;
- this proxy form must be delivered to the Company, or to the transfer secretaries of the Company, namely Computershare Investor Services (Proprietary) Limited, before your proxy exercises any of your rights as a shareholder at the annual general meeting;
- the appointment of your proxy or proxies will be suspended at any time to the extent that you choose to act directly and in person in the exercise of any of your rights as a shareholder at the annual general meeting;
- the appointment of your proxy is revocable unless you expressly state otherwise in this proxy form;
- as the appointment of your proxy is revocable, you may revoke the proxy appointment by (i) cancelling it in writing, or making a later inconsistent appointment of a proxy and (ii) delivering a copy of the revocation instrument to the proxy and to the Company. Please note the revocation of a proxy appointment constitutes a complete and final cancellation of your proxy's authority to act on your behalf as of the later of (i) the date stated in the revocation instrument, if any, or the date on which the revocation instrument was delivered to the Company and the proxy as aforesaid;
- If this proxy form has been delivered to the Company, as long as that appointment remains in effect, any notice that is required by the 2008 Companies Act or the Company's Memorandum of Incorporation to be delivered by the Company to you will be delivered by the Company to you or your proxy or proxies, if you have directed the Company to do so, in writing and paid any reasonable fee charged by the company for doing so;
- your proxy is entitled to exercise, or abstain from exercising, any voting right of yours at the annual general meeting, but only as directed by you on this proxy form; and
- the appointment of your proxy remains valid only until the end of the annual general meeting or any adjournment or postponement thereof or for a period of 6 (six) months, whichever is shortest, unless it is revoked by you before then on the basis set out above.

**Please also read the notes overleaf.**

# NOTES TO FORM OF PROXY

1. The person whose name stands first on the proxy form and who is present at the annual general meeting will be entitled to act as a proxy to the exclusion of those whose names which follow thereafter.

2. If no proxy is inserted in the spaces provided, then the Chairperson shall be deemed to be appointed as the proxy to vote or abstain as the Chairperson deems fit.

3. A shareholder's instructions to the proxy must be indicated by the insertion of the relevant number of votes exercisable by that shareholder in the appropriate box provided. If there is no clear indication as to the voting instructions to the proxy, the proxy form will be deemed to authorise the proxy to vote or to abstain from voting at the annual general meeting as he/she deems fit in respect of all the shareholder's votes exercisable thereat.

4. A shareholder or his/her proxy is not obliged to use all the votes exercisable by the shareholder or by his/her proxy, but the total of the votes cast and in respect of which abstention is recorded may not exceed the total of the votes exercisable by the shareholder or by his/her proxy.

5. Proxy forms must be lodged at the registered office of the Company, 12 Botha Street, Alrode, 1451 or posted to the Company Secretary at PO Box 123738, Alrode, 1451, or lodged with or posted to the transfer secretaries, Computershare Investor Services (Proprietary) Limited, Ground Floor, 70 Marshall Street, Johannesburg, 2001 (PO Box 61051, Marshalltown, 2107, South Africa).

6. Forms of proxy must be received or lodged by no later than 10h00 on Monday, 20 June 2011, being 48 (forty-eight) hours before the annual general meeting to be held at 10h00 on Wednesday, 22 June 2011.

7. Documentary evidence establishing the authority of a person signing this proxy form in a representative capacity must be attached to this proxy form unless previously recorded by the Company Secretary or waived by the Chairperson of the annual general meeting if he is reasonably satisfied that the right of the representative to participate and vote has been reasonably verified. CSDP's or brokers registered in the Company's sub-register voting on instructions from beneficial owners of shares registered in the Company's sub-register, are requested that they identify the beneficial owner in the sub-register on whose behalf they are voting and return a copy of the instruction from such owner to the Company Secretary or to the transfer secretaries, Computershare Investor Services (Proprietary) Limited, Ground Floor, 70 Marshall Street, Johannesburg, 2001 (PO Box 61051, Marshalltown, 2107, South Africa), together with this form of proxy.

8. Any alteration or correction made to this proxy form must be initialled by the signatory/ies, but any such alteration or correction will only be validly made if it is accepted by the Chairperson.

9. A minor must be assisted by his/her parent or guardian unless the relevant documents establishing his/her legal capacity are produced or have been registered by the Company Secretary.

# CORPORATE ADMINISTRATION AND INFORMATION

## South Ocean Holdings Limited

(Registration number: 2007/002381/06)
(Incorporated in the Republic of South Africa)
ISIN: ZAE000092748
Short name: South Ocean
JSE code: SOH
Currency: ZAR
Founded: 2007
Listed: 2007
Sector: Electronic and Electrical Equipment
Website: www.southoceanholdings.com
E-mail: info@southoceanholdings.co.za

## Business address and registered offices

16 Botha Street
Alrode 1451
South Africa
Postal address
PO Box 123738
Alrode 1451
South Africa
Telephone: +27 11 864 1606
Telefax: +27 86 628 9523

## Company secretary

Whitney Thomas Green
21 West Street
Houghton 2198
South Africa
Postal address
PO Box 123738
Alrode 1451
South Africa
Email: whitneyg@glocapital.com
Telephone: +27 11 728 0255
Telefax: +27 11 728 8921

## Share Transfer Secretaries

Computershare Investor Services (Pty) Limited
(Registration number: 2004/003647/07)
70 Marshall Street
Ground Floor
Johannesburg 2001
South Africa
Postal address
PO Box 61051
Marshalltown 2107
South Africa
Telephone: + 27 11 370 5000
Telefax: + 27 11 688 5200
Website: www.computershare.com

## Auditors

PricewaterhouseCoopers Inc.
2 Eglin Road
Sunninghill 2157
South Africa
Telephone: + 27 11 797 4000
Telefax: + 27 11 797 5800

## Sponsor

Investec Bank Limited
(Registration number: 1969/004763/06)
Second Floor
100 Grayston Drive
Sandown, Sandton 2196
South Africa

## Principal bankers

First National Bank, a division of FirstRand Bank Limited
Standard Bank of South Africa Limited

South Ocean
HOLDINGS

www.southoceanholdings.com