Hudaco

INTEGRATED REPORT 2016

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PROFILE

Hudaco Industries is a South African group specialising in the **importation** and **distribution** of high-quality branded **automotive, industrial** and **electrical consumable** products, mainly in the southern African region.

Hudaco businesses serve markets that fall into two primary categories. The automotive aftermarket, power tool, security and communication equipment businesses supply products into markets with a bias towards consumer spending whilst the mechanical and electrical power transmission, diesel engine, hydraulics and pneumatics, steel, thermoplastic fittings and bearings businesses supply engineering consumables mainly to mining and manufacturing customers.

Hudaco sources branded products, mainly on an exclusive basis, directly from leading international manufacturers and to a lesser extent from local manufacturers. Hudaco seeks out niche areas in markets where customers need, and are prepared to pay for, the value Hudaco adds to the products it distributes. The value added includes product specification, technical advice, application and installation training and troubleshooting, combined with ready availability at a fair price. The group has a network of specialised branches and independent distributors throughout southern Africa to ensure product availability to its customers. With the exception of DD Power, in which Deutz AG has a 30% share, all Hudaco businesses are 15% owned directly by BEE shareholders.

Refers to additional information in the report

Refers to additional information on our website: www.hudaco.co.za

HIGHLIGHTS AND CHALLENGES

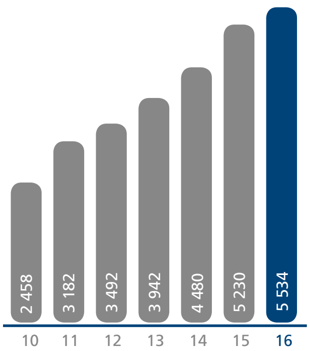
- Turnover up 5,8% to R5,5 billion
- Operating profit up 6% to R639 million
- Attributable profit up 5,3% to R388 million
- Annual dividend maintained at 525 cents per share
- Basic and headline earnings per share up 5%
- Comparable earnings per share marginally up to 1 171 cents
- Return on equity 21%
- Net cash generated from operations up 51% to R749 million

- **Four successful** acquisitions
- **Sales into Africa** up 12%
- **50 employees graduate** from Wits Business School
- **78 bursaries granted** to staff and their family members
- **71 technical trainees** successful
- **Economy still weak** and sentiment negative
- **Rand exceptionally** volatile

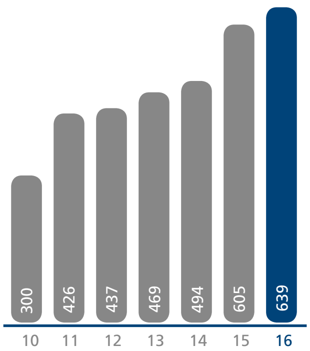
RESULTS IN BRIEF

30 November	2016	2015
Turnover (Rm)	**5 534**	5 230
Operating profit (Rm)	**639**	605
Comparable earnings (Rm)	**370**	370
Headline earnings (Rm)	**387**	368
Attributable earnings (Rm)	**388**	369
Comparable earnings per share (cents)	**1 171**	1 169
Headline earnings per share (cents)	**1 222**	1 163
Dividends per share (cents)	**525**	525

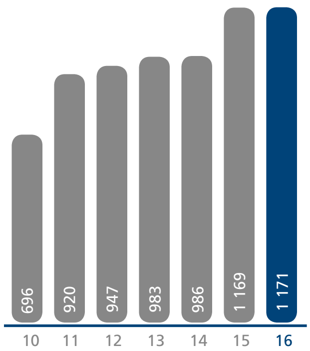
TURNOVER (RM)



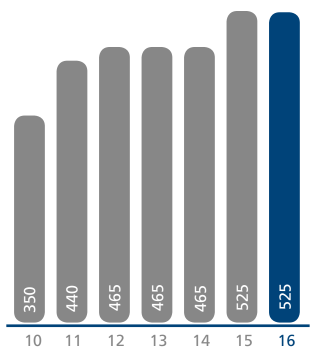
OPERATING PROFIT (RM)



COMPARABLE EARNINGS PER SHARE (CENTS)



DIVIDENDS PER SHARE (CENTS)



ABOUT THIS REPORT

Hudaco is committed to conducting its business ethically and responsibly with a view to creating value in the long-term interest of society. Our integrated annual report (IAR) is aimed at providers of capital as well as a diverse range of other stakeholders.

Scope and boundary

This IAR covers the period 1 December 2015 to 30 November 2016. The group's financial year ends on 30 November, and unless otherwise indicated or described, the information included in this report refers for the years ended 30 November 2016 and 30 November 2015. The previous IAR covered the period 1 December 2014 to 30 November 2015. The IAR deals with Hudaco's operations in South Africa, the rest of Africa and outside Africa.

The entities reported on include Hudaco Industries Limited, and its subsidiaries. Their businesses are described on page 4 of this IAR.

The group financial information is prepared according to International Financial Reporting Standards (IFRS). Non-financial information deemed to be material is also included. This report aims to present a concise and balanced position of Hudaco's strategy, performance, governance and prospects.

Basis of preparation

This IAR is prepared in terms of the JSE's Listings Requirements for integrated reporting and the King III Code on Corporate Governance. It also meets all the other legal requirements to which the company must adhere (such as the Companies Act). This IAR is used as a vehicle to communicate Hudaco's evolving business model and the quality of the decisions that have led to the financial results. Based on Hudaco's leadership engagement, governance processes and formal and informal stakeholder engagement initiatives, particularly with investors, the board is satisfied that all material matters have been disclosed in this report.

Our revenue, profits, social and environmental impacts and benefits accrue from our many business units that do not report independently in the public domain. In this report we try to strike a balance between adequate composite reporting at a group level, and communicating sufficient, but not excessive, detail of the underlying operations. This report tries to integrate the operational, financial and sustainability (environmental, social and governance) issues relating to the key drivers of the business. In the report, we explain how the executives of Hudaco have applied their minds to considering these issues while developing the business' strategy.

In compiling this integrated report, the following were taken into consideration:

- the Hudaco mission;
- Hudaco's strategic objectives to achieve the mission;
- the Hudaco business model;
- input received from the stakeholder engagement process;
- reporting requirements for a listed company, including legislation;
- various relevant guidelines;
- King III and JSE Listings Requirements;
- performance and developments during the year; and
- matters the board believes are of relevance to stakeholders.

The King IV Report on Corporate Governance for South Africa (King IV) was published on 1 November 2016 and will be applicable to Hudaco Industries Limited in respect of its accounting year which commences on 1 December 2017.

HISTORY

1890s

1930s

1970s

Formation

In 1891, just five years after the discovery of gold on the Witwatersrand, J Hubert Davies started an industrial equipment supply business in Johannesburg. By the turn of the century, the business was a major player in the distribution of mechanical and electrical industrial products. In 1917 it was converted into a private company, which facilitated the introduction of senior managers as shareholders and directors.

First JSE listing

In September 1938, Hubert Davies and Company Limited listed on the Johannesburg Stock Exchange. It delisted almost four decades later, in 1977, when it became a wholly owned subsidiary of Blue Circle Limited. The United Kingdom-based industrial group had already acquired a substantial interest in the company three years earlier.

Expansion and decentralisation

In the 1970s, Hubert Davies expanded its product offering and branch network to extend across southern Africa. Then a strategic decision was made to specialise by product and activity, in order to provide more focused customer service and achieve improved market penetration. Following on from this, a management philosophy of decentralising decision-making and responsibility was introduced. This philosophy is still in place today.

Hudaco continues to apply the principles of King III and has reviewed its practices against these principles. The board is satisfied with the group's compliance with King III and its explanation of instances where alternative governance had been put in place. Where King III practices or principles are not applied within the business, this is clearly explained to stakeholders and, where necessary, other controls are put in place to ensure good governance.

Guidelines used in compiling the separate elements of the IAR include:

Report element	Guidelines	Reference
Corporate governance and risk management report	King III	Pages 29 to 41
Black economic empowerment status report	Codes of Good Practice, issued by the Department of Trade and Industry (dti)	Page 51
Environmental impact and employee report	Various relevant guidelines, including those contained in the global reporting initiative (GRI) G3 indicators	Pages 52 to 53, 58 to 65 and throughout as well as website
Annual financial statements	International Financial Reporting Standards (IFRS), Financial Reporting Guides, issued by the South African Institute of Chartered Accountants, South African Companies Act and the JSE Listings Requirements	Pages 66 to 106

While we acknowledge that there are areas to be improved upon in Hudaco's reporting, particularly in respect of environmental reporting and we remain committed to addressing these in subsequent reports. We believe that this 2016 report leaves us close to best international practice, provides stakeholders with a detailed view of our activities for the past year and outlines our approach to these issues in the years ahead. Hudaco's reporting complies with application level C of the GRI (G3) sustainability guidelines on economic, environmental and social performance, adopted by the group in 2010.

Approval of financial statements

The financial statements have been approved by the board. Grant Thornton has signed an unqualified audit opinion on the annual financial statements.

Hard copy and report feedback

This integrated report is available in hard copy from the group secretary at +27 11 657 5000 or info@hudaco.co.za. Any questions regarding this report or its contents should also be channelled through the group secretary.

Feedback on this report is welcomed and similarly can be made directly to the group secretary.

1980s

Second JSE listing

In line with the specialisation trend among businesses at that time, Hudaco Industries was established as a separate autonomous company in 1981, owning the group's distribution businesses. In May 1984, with banks as partners, management, under the leadership of Bruce MacInnes, acquired control of Hudaco Industries from Blue Circle, in what was then the largest South African private equity leveraged buyout. On 14 November 1985, Hudaco Industries Limited listed on the Johannesburg Stock Exchange at a subscription price of R1,50 per share, with a market capitalisation of R29 million. Several large acquisitions followed, including listed companies Frencorp, Valard and Elsec.

2000s

B-BBEE shareholding and growth

In 2007, the group sold 15% of the majority of its operating businesses to black, previously disadvantaged shareholders as part of a B-BBEE initiative. The 2000s also saw the group's annual turnover increase to R4 billion.

Today

A quality diversified industrial distributor

Recent years have seen Hudaco make several significant acquisitions, including Filter and Hose Solutions, Global Communications, the Dosco group and Partquip, which serves the automotive aftermarket and is now the group's largest single business. HERS and MiRO were added in 2016. This acquisition strategy has enabled the group to weather very difficult conditions in its core markets and to diversify the sectors it serves so as to reduce exposure to mining and manufacturing.

Today, with a proud history of 125 years since J Hubert Davies saw the long-term business potential of the initial gold rush, the group remains true to its roots. The group now employs over 3 000 people and has a market capitalisation of about R3,5 billion. Its shareholders include many blue-chip players in the South African investment industry.

GROUP AT A GLANCE

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CONSUMER-RELATED PRODUCTS

Principal activities	Businesses
Automotive products The distribution of clutch kits, automotive ignition leads, oil and hydraulic seals, wheels, brake and clutch hydraulics, mountings, bushes, hydraulic repair kits, cylinders, hose, CV joints, wheel hubs, suspension components and 4X4 vehicle components to the automotive and industrial after-market.	**Abes Technoseal and Partquip** Distribute seals and Valeo clutch kits and a variety of passenger and 4X4 vehicle parts, respectively.
Batteries Distribution of maintenance free lead acid, stand-by and solar batteries.	**Deltec and Specialised Battery Systems** Distribute maintenance free automotive, stand-by and solar batteries.
Power tools The distribution of power tools, marine engines, survey equipment, rivets and fasteners.	**Rutherford** Distributes Makita power tools and Mercury marine engines.
Security equipment The distribution of intruder detection, access control and related CCTV equipment, including design and integration of systems, fibre-optics, fire detection and video over IP installations.	**Elvey Security Technologies and Pentagon** Distribute Bosch, DSC, Optex and Risco security equipment.
Communication equipment The distribution of professional mobile radio equipment and radio systems integrator, distribution of wireless networking, VoIP and video products and communication management software, solutions and equipment.	**Global Communications, MiRO and SS Telecoms** Distribute Kenwood, Barrett, JVC, Ubiquiti, Mikrotik, Cambium, Sharetel, Mitel and ATel communication equipment.

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ENGINEERING CONSUMABLES

Principal activities	Businesses
Diesel engines and spares The distribution of Deutz diesel engines and Deutz spares and the provision of service support.	**Deutz Dieselpower** Represents Deutz AG – one of the world's leading independent manufacturers of diesel engines.
Power transmission The distribution of geared motors, belting, hydraulics, drivetrains, filtration solutions, kits and accessories, pneumatics, industrial hose, conveyor drive pulleys, variable speed drives, special engineering steels, specialised thermoplastic pipes and fittings, gear pumps, ferrous and non-ferrous castings, electrical cabling, plugs and related products to the manufacturing, mining and agricultural aftermarkets.	**Power transmission** Ambro Steel, Astore Keymak, Bauer, Belting Supply Services, Berntel, Bosworth, Brewtech Engineering, Dosco, Ernest Lowe, Filter and Hose Solutions, GPM, HERS, Joseph Grieveson, Powermite, Proof Engineering, Sanderson Special Steels, Three-D Agencies and Varispeed.
Bearings The distribution of bearings, chain, seals, geared motors, electric motors and transmission products.	**Bearings International** Has over 40 branches across South Africa. The main bearing brands distributed are FAG from Germany and KOYO from Japan.

Key drivers	R million	2016	2015
• Consumer spending • Building activity • Employment levels • Vehicle sales • Analogue to digital migration • Broadband, Wi-Fi and VoIP expansion	Sales	**2 802**	2 603
	– Ongoing	**2 553**	2 603
	– Acquired after Dec 2014	**249**	
	Operating profit	**405**	380
	– Ongoing	**372**	380
	– Acquired after Dec 2014	**33**	
	Average NOA*	**1 337**	1 072
	Number of permanent employees	**1 004**	865

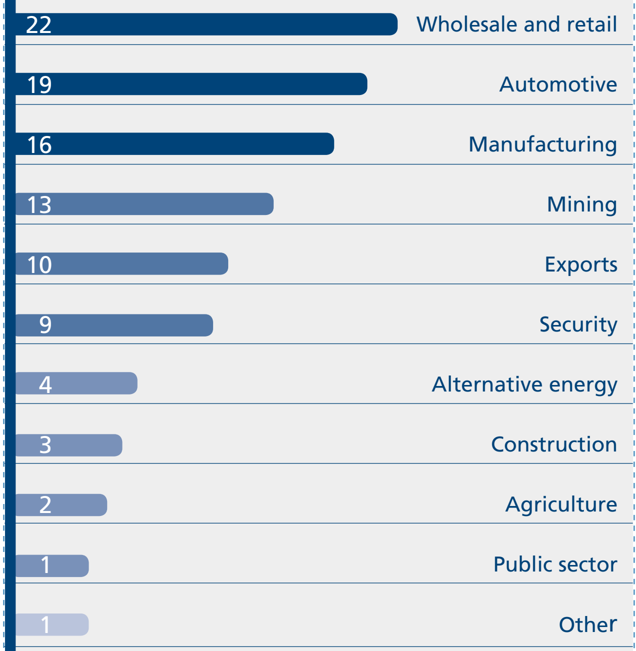
* Net operating assets

Key drivers	R million	2016	2015
• GDP growth • Mining activity • Mining investment • Mining mechanisation • Manufacturing activity • Electricity usage management	Sales	**2 739**	2 635
	– Ongoing	**2 531**	2 621
	– Acquired after Dec 2014	**208**	14
	Operating profit	**255**	260
	– Ongoing	**222**	259
	– Acquired after Dec 2014	**33**	1
	Average NOA*	**1 732**	1 658
	Number of permanent employees	**2 068**	2 093

* Net operating assets

GROUP

Sales by market sector – 2016



Key drivers	R million	2016	2015
• Exchange rates • Acquisitions	Sales	**5 534**	5 230
	– Ongoing	**5 077**	5 216
	– Acquired after Dec 2014	**457**	14
	Operating profit	**639**	605
	– Ongoing	**573**	604
	– Acquired after Dec 2014	**66**	1
	Average NOA*	**3 141**	2 708
	Number of permanent employees	**3 096**	2 980

* Net operating assets

SEVEN-YEAR REVIEW

R million	2016	2015	2014	2013	2012	2011	2010
GROUP STATEMENT OF INCOME							
Turnover	**5 534**	5 230	4 480	3 942	3 492	3 182	2 458
Profit before interest and tax	**658**	603	497	446	446	426	278
Net finance costs less dividends received	**100**	76	39	21	48	42	17
Profit before taxation	**558**	527	458	425	398	384	261
Taxation excluding tax settlement	**148**	141	128	120	47	47	24
Profit before tax settlement	**410**	386	330	305	351	337	237
Settlement of tax dispute			312				
Income from joint venture	**3**	3					
Profit for the year	**413**	389	18	305	351	337	237
Non-controlling interest	**25**	20	15	11	11	13	3
Attributable earnings	**388**	369	3	294	340	324	234
Shares in issue (000) (weighted average)	**31 464**	31 646	31 646	31 646	31 646	31 617	31 466
Earnings per share (cents)							
– comparable	**1 171**	1 169	986	983	947	920	695
– headline	**1 222**	1 163	6	928	1 071	1 024	800
– basic	**1 226**	1 164	8	930	1 074	1 026	745
Dividends per share (cents)	**525**	525	465	465	465	440	350
GROUP STATEMENT OF FINANCIAL POSITION							
Property, plant and equipment	**256**	261	257	214	205	182	131
Investment in joint venture	**7**	7					
Goodwill	**1 243**	1 001	730	619	594	516	331
Intangible assets	**68**	69	36	39	49	49	34
Deferred taxation – net	**26**	15	1	10	11	11	23
Inventories	**1 508**	1 369	1 141	1 104	919	813	663
Trade and other receivables	**1 046**	990	856	780	684	616	423
Trade and other payables	**(898)**	(764)	(711)	(673)	(592)	(586)	(420)
Taxation – net	**3**	3	(186)	37	(6)	(8)	(6)
Net operating assets	**3 259**	2 951	2 124	2 130	1 864	1 593	1 179
Investment in preference shares					2 181	2 181	2 181
Net (borrowings) cash	**(905)**	(1 016)	(413)	(204)	(17)	166	262
Employment of capital	**2 354**	1 935	1 711	1 926	4 028	3 940	3 622
Equity holders of the parent	**2 065**	1 844	1 649	1 816	1 670	1 494	1 287
Non-controlling interest	**65**	51	33	19	26	31	27
Equity	**2 130**	1 895	1 682	1 835	1 696	1 525	1 314
Subordinated debenture					2 181	2 181	2 181
Amounts due to vendors on acquisitions	**224**	40	29	91	151	234	127
Total capital employed	**2 354**	1 935	1 711	1 926	4 028	3 940	3 622
GROUP STATEMENT OF CASH FLOWS							
Cash generated from trading	**708**	653	525	513	458	458	327
Decrease (increase) in working capital	**33**	(153)	(44)	(138)	(121)	(129)	12
Cash generated from operations	**741**	500	481	375	337	329	339
Taxation paid (including tax settlement)	**(175)**	(378)	(222)	(169)	(54)	(46)	(49)
Net cash from operating activities	**566**	122	259	206	283	283	290
Investment in new operations	**(165)**	(463)	(224)	(181)	(229)	(164)	(184)
Investment in property, plant and equipment	**(30)**	(31)	(58)	(32)	(39)	(64)	(50)
Disposal of preference shares				2 181			
Dividends and interest received				50	202	205	218
Net cash from investing activities	**(195)**	(494)	(282)	2 018	(66)	(23)	(16)
Proceeds from issue of shares						2	7
(Decrease) increase in long-term borrowings	**(90)**	603	197		(3)	3	
Subordinated debenture repurchased				(2 181)			
Finance costs paid	**(86)**	(73)	(38)	(66)	(237)	(234)	(234)
Dividends paid	**(174)**	(158)	(148)	(164)	(163)	(124)	(120)
Net cash from financing activities	**(350)**	372	11	(2 411)	(403)	(353)	(347)
Net increase (decrease) in cash and cash equivalents	**21**	0	(12)	(187)	(186)	(93)	(73)

MISSION

Hudaco has been an important part of the South African business landscape for more than a century. Our mission is to develop and manage a sustainable business for the benefit of all stakeholders, in both current and future generations.

Accordingly, we welcome the initiative of the King Commission and the JSE to place at the centre of our decision-making processes the creation of sustainable and long-term value for all our stakeholders, not just our shareholders.

Achieving Hudaco's mission

Shareholders	We aim to produce superior returns for our **shareholders** by efficiently managing our business and by taking advantage of acquisitive and organic growth opportunities
Customers	We safeguard our strong market shares by offering quality products and ready availability to our **customers**
Suppliers	We establish enduring partnerships with our **suppliers**, combining their leading world brands and our distribution strengths in southern Africa
People	We ensure that a significant part of Hudaco's strength – its **people** – thrive in a decentralised, dynamic and challenging business environment
Transformation	We are committed to playing a part in the **transformation** of South Africa's society and economy to help redress the inequities of the past
Communities Environment	We aim to achieve our objectives in a manner governed by the highest standards of ethical conduct, sensitive to the needs of the **communities** in which our businesses operate and conscious of our responsibilities for safety and the **environment**

Measurement of success

We measure success through financial and non-financial assessments:

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- Shareholders – the primary measures are financial and are detailed in the financial review on pages 22 to 26;
- Customers – growth in market share, measured where information is available and using customer satisfaction reviews;
- Suppliers – retention of significant brands, principal relationship reviews, benchmarking the market position of a brand in South Africa with its market position internationally;

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- Our people – retention and promotion record; success on educational programmes; health and safety records; support for wellness initiatives;

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- Transformation – employment equity: appointment and promotion of black people to more senior positions; proportion and success of black people on our educational programmes; black economic empowerment: empowering previously disadvantaged South Africans to own equity in the company;
- Communities – success of students on our BEE bursary programme, support for and success of our corporate social investment initiatives; and

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- Environment – progress on goals as set out in the environmental impact report.

BUSINESS MODEL

Hudaco's core activity is the importation and distribution of high-quality branded **industrial**, **automotive** and **electronic consumable** products.

The three main objectives we seek to achieve are as follows:

1 We seek out and secure exclusive distribution rights from leading international manufacturers with a global brand presence and a commitment to maintaining market leadership, particularly through technical innovation.

2 We look for products with which we can add value through the distribution chain through stockholding, product availability and providing technical support. Typically, these would be technical specification, advice on usage or installation and customer training. The amount of value add is established by determining whether the customer's purchasing decision could be influenced by the addition of a technical support function.

3 We focus on offering maintenance spares for critical customer equipment. Purchasing decisions for these items are made easily and quickly without onerous tender procedures.

SOURCE

1

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Hudaco sources products from more than 800 international suppliers scattered across the industrialised world.

2

We carry more than 230 000 line items in stock. Demand is relatively inelastic, with low line item sales predictability, whilst supplier lead times can range from three months to well over a year, in extreme cases. Inventory holding is therefore Hudaco's most important asset, as our key competitive advantage is the ability to offer availability on demand.

Our suppliers rely on our understanding of the specific challenges of doing business in Africa, particularly the political and regulatory risks and the limitations which the size of these economies pose, and appoint us to represent their brands in markets which they would not ordinarily have been able to access.

Crucially, we must adapt continually to the dynamics of doing business in Africa.

Technical support is provided from South Africa until we have developed locals with managerial and technical skills.

GROUP VALUE ADD

Our objective is to offer customers more than just a product in a box. In addition, we offer advice on product selection, quick availability and technical advice and training. In our acquisition efforts we seek to acquire agencies for products where customers either already require these characteristics or, by introducing them, we think we can increase customer loyalty to the brand.

Hudaco's value-add offering is in demand by our customers. Hudaco is in the fortunate position of being able to maintain its technical skills base through loyal and motivated employees. We are also able to quickly and easily train new staff through training offered internationally by our suppliers and our own in-house training programmes.

ACQUISITIONS

Hudaco's first priority is to take advantage of organic growth opportunities within the markets it serves. However, after funding organic growth and paying dividends to shareholders, Hudaco's high cash-generating characteristics mean that funds are still available to fund the acquisition of new businesses. We use acquisitions of successful (and usually privately held) businesses to provide an additional platform for future growth.

Our board has agreed on a strategy to pursue acquisitions with the aim of:

- ideally closing one major acquisition of at least R300 million turnover every two years;
- continuing to acquire smaller usually bolt-on businesses;
- concluding a major, R1 billion-plus acquisition, if such an opportunity can be found; and
- avoiding dependency on any one market sector by diversifying our portfolio of businesses.

We believe that there are many private business owners in South Africa who are aware of Hudaco, like our management style and consider our buyout formula attractive. When the time is right, we hope they will approach us directly with a view to possibly selling their businesses to us.

Where practicable, Hudaco seeks to:

- purchase the business not the company;
- purchase thriving (not distressed) businesses with depth in management;
- enter into service agreements with management;
- include earn-out arrangements; and
- purchase for cash, unless the acquisition is large enough to warrant issuing shares.

Key elements of our success:
Selling products which require **value to be added** and our **decentralised management** style.

Value add can be some or all of the following:

- availability;
- product identification, specification and supply;
- advice on usage or installation;
- customer training; and
- provision of credit to customers.

Decentralising management has the following advantages:

- allows faster decision-making;
- empowers employees; and
- leads to high standards and disciplines.

DISTRIBUTION

Our success factors

1

The quality of the personal relationships between Hudaco and the seller of the business is one of the most important factors for a successful acquisition. We don't impose joint purchasing or tendering, preferring to preserve each business' route to market by allowing significant autonomy. Managing directors of businesses that come into the group may be invited to play a wider role within the group once they have completed their three-year earn-out and they have proved to us and to themselves that they are comfortable in a corporate environment. We benefit greatly from the presence of the seller of a successful business on our team as they often bring with them experience and ideas worth sharing across the broader group.

2

Our decentralised structure helps to ensure that the businesses that we buy remain intact ie the brand, the staff and the reputation. Hudaco only intervenes when performance requires it.

Target criteria

Our acquisition target criteria are businesses that mostly are/have:

- customers which require value-added distribution;
- an identifiable competitive advantage, eg strong brand/s;
- already profitable and earning good returns;
- in growth markets;
- distribution rights for products which are not currently offered by any business within the group;
- strong general and financial management and good controls;
- a presence in non-capital, industrial, automotive or electronic products;
- selling to markets in southern Africa; and
- preferably headquartered in Gauteng.

Principals/suppliers

Hudaco's businesses distribute top-quality branded products and have represented their major principals for many years. The dates the relationships commenced are set out with the brand logos on pages 44 to 50. The following factors strengthen our ability to retain existing distribution rights:

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- Market share is key. If our local market share is similar to what our principal enjoys internationally, distribution rights are unlikely to be disturbed.
- The local southern African market is small in world terms making entering it directly not worthwhile.
- South Africa is heavily regulated with unique laws (for example BEE) not well understood by the international community. Further, the regulatory and compliance landscape is not stable – new BEE and labour requirements are now a regular occurrence. This tends to dissuade suppliers from entering the market directly.
- The level of corruption and/or perceived corruption in South Africa. Overseas suppliers perceive that rights to conduct business are increasingly subject to government patronage and that awarding government business is sometimes accompanied by demands for payoffs. For legal and reputational risk reasons international corporations avoid doing business in such environments themselves. Nevertheless, Hudaco does not, and will not, participate in corrupt activities.
- Long-term relationships (frequently on a personal level) and a well-established distribution footprint – both of which are hard to replicate.

Principal activities/product range

- Products are distributed throughout southern Africa by our approximately 30 businesses.
- We supply some 30 000 active customers from over 150 southern African branches (most of which are in South Africa).
- In most countries we supply through local distributors, but we have branches in Namibia, where we have a longer track record of doing business, and more recently in Zambia, Botswana and Zimbabwe.

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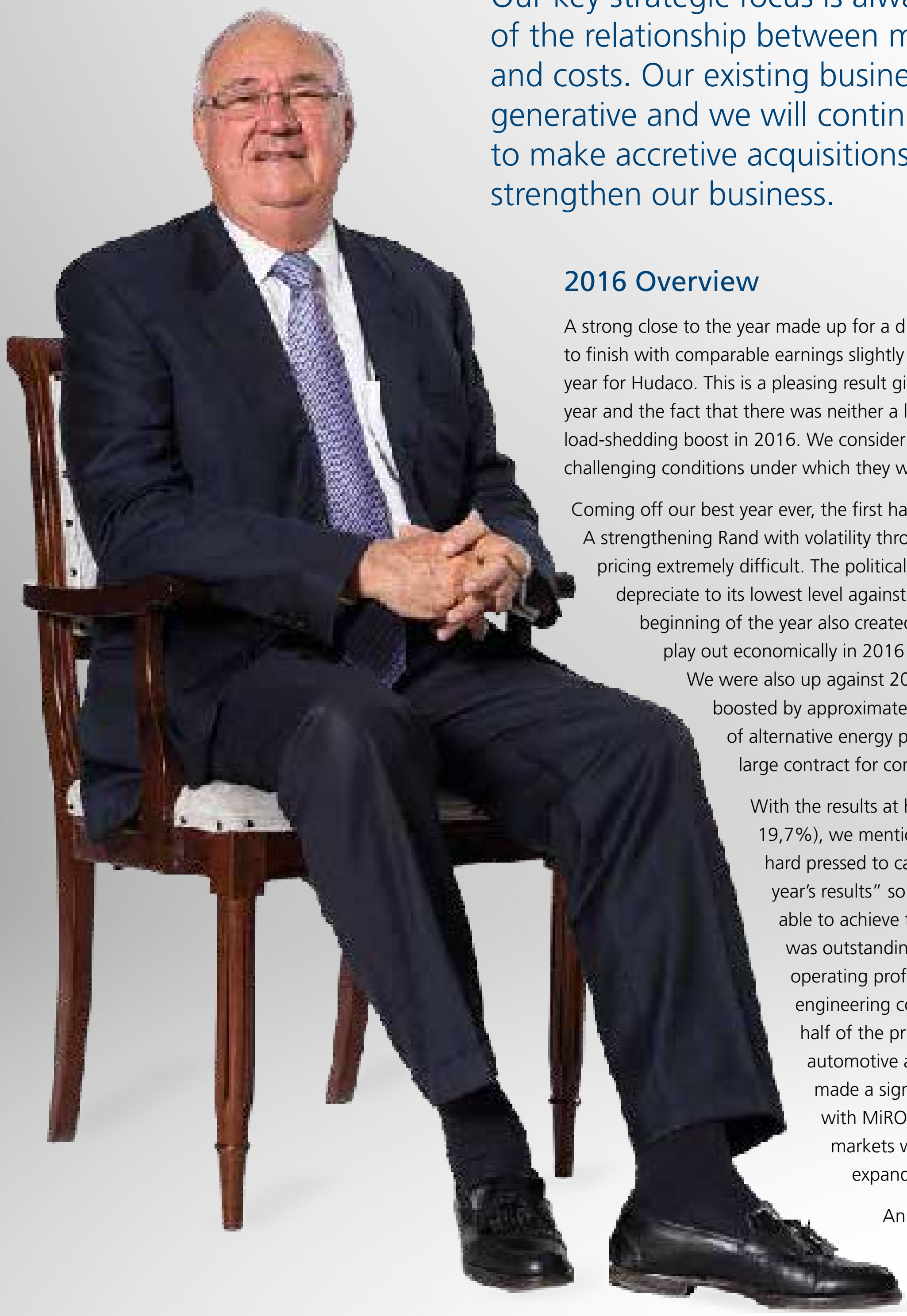
Consumer-related products

- Automotive products
- Batteries
- Communication equipment
- Power tools
- Security equipment

Engineering consumables

- Bearings
- Diesel engines and spares
- Mechanical power transmission products
- Electrical power transmission products

JOINT REPORT OF THE CHAIRMAN AND CHIEF EXECUTIVE



Royden Vice
Chairman

Our key strategic focus is always the management of the relationship between margins, inventories and costs. Our existing businesses are very cash generative and we will continue to use this cash to make accretive acquisitions that diversify and strengthen our business.

2016 Overview

A strong close to the year made up for a disappointing first half and enabled us to finish with comparable earnings slightly up on 2015, which had been a record year for Hudaco. This is a pleasing result given a decline of almost 20% at mid-year and the fact that there was neither a large communication contract nor a load-shedding boost in 2016. We consider these results to be excellent, given the challenging conditions under which they were achieved.

Coming off our best year ever, the first half of 2016 was very difficult. A strengthening Rand with volatility throughout the year, made managing pricing extremely difficult. The political machinations that saw the Rand depreciate to its lowest level against our major trading currencies at the beginning of the year also created uncertainty about how things would play out economically in 2016 and depressed business confidence. We were also up against 2015's good first half results having been boosted by approximately R45 million in profits from the sales of alternative energy products due to load shedding and a large contract for communication equipment.

With the results at half year well down (CEPS down 19,7%), we mentioned at the time that "we would be hard pressed to catch up the deficit and match last year's results" so we are very pleased to have been able to achieve that. The second half of the year was outstanding, with consumer-related products' operating profit up a very impressive 32% and engineering consumables up 12% on the second half of the prior year. Good performances from our automotive and security businesses and acquisitions made a significant contribution to this great result with MiRO reinforcing our diversification into markets with better growth potential and HERS expanding our offering to existing markets.

Annual sales were up 6% to R5,5 billion whilst operating profit rose 6% to R639 million. Headline earnings per share were up 5% to 1 222 cents with comparable earnings per share marginally up from 1 169 to 1 171 cents. The return on equity was a very respectable 20,5%.

The final dividend has been increased by 10 cents per share to leave the total dividend for 2016 unchanged at 525 cents, after the interim dividend had been reduced as a prudent measure in light of the depressed first half results. Comparable earnings cover the full dividend 2,2 times, which falls within our long-term dividend policy range of paying between 40% and 50% of comparable earnings.

Our financial position remains healthy and Hudaco's operations remain exceptionally cash generative. The group had R905 million in net bank borrowings at year-end, down from R1 016 million notwithstanding R168 milion spent on acquisitions, representing gearing of 42%. More importantly, interest payments (excluding imputed interest) were covered eight times by EBITDA against our internal covenant of at least five times. There is still capacity for acquisitions and we continue to look for accretive businesses that will further diversify and strengthen our portfolio.

Inventories have been well managed considering the volatility of the Rand against our basket of currencies. At R1 508 million, they are up only 4,5%, excluding take-on inventory of acquisitions. The return on net operating assets (RONA) in 2016 is 20,4%, down on the 22,4% of last year but still well above our pre-tax cost of capital, which is approximately 14%.

Consumer-related products

The consumer-related products segment comprises ten businesses. In 2016 it made up 51% of Hudaco's sales and 61% of operating profit. These results are more impressive given that this year we did not have the benefit of alternative energy sales due to load shedding or a major contract in our communications business.

The automotive businesses of Partquip and Abes had a very good year. There was good growth from our security businesses. Elvey Security Technologies had a significantly better year but the main increase was in the project business through Pentagon.

MiRO, a distributor of wireless connectivity products, had a very good first seven months in the group and we look forward to its contribution in the years ahead as it has significant potential for growth. Rutherford, the second largest business in this segment which distributes Makita power tools and garden equipment had a difficult year, partly attributable to delays at the National Regulator for Compulsory Specifications in issuing authority letters to launch new products.

The segment increased sales by 7,6% to R2,8 billion and operating profit by 6,6% to R405 million.

Graham Dunford
Chief executive

JOINT REPORT OF THE CHAIRMAN AND CHIEF EXECUTIVE
continued

Engineering consumables

The 20 businesses that constitute engineering consumables made up the other 49% of sales and 39% of operating profit. This was yet another difficult year for the businesses in this segment serving the depressed mining and manufacturing industries. The severe drought that gripped the southern African region also had a negative impact on our sales.

Nevertheless, most of the businesses in this segment performed satisfactorily considering the economic conditions. The second half results were very promising with a 12% increase in operating profit over the second half of 2015. We were particularly encouraged by the growth in operating profit from Bearings International, Astore Keymak, Bosworth and our specialised steel businesses.

There were three companies in this segment with significant declines in sales and operating profit. Our filter business, FHS, whilst still yielding an excellent return on sales, saw a significant decline in revenue due to depressed opencast mining and construction sectors. In the gear pump business, GPM, where we opened a USA located warehouse to take advantage of growing demand for our product, sales plummeted as customers reduced their own inventories because we could deliver on much shorter lead times. This is a once-off issue and customer take-up has already started to normalise. Deutz Dieselpower, our diesel engine business, did not have the benefit of the sales of genset engines that it enjoyed in the previous year due to load shedding.

We have taken steps over the last two years to right size certain businesses to the lower levels of activity being experienced. They will be better placed when mining and manufacturing activity improves. The second half of 2016 has shown signs that lead us to believe that prospects are turning.

The segment increased sales by 4,0% to R2,7 billion whilst operating profit declined by 1,9% to R255 million. Operating profit margin was a very respectable 9,3%.

Acquisitions

Acquisitions continue to play an important role in our growth as well as our diversification strategy to reduce reliance on specific sectors of the economy. 2016 was a good year for acquisitions with a combined likely purchase price of R404 million committed to All-Trade, MiRO, Brewtech and HERS, of which R153 million was paid in 2016. For the period they were in the group, these businesses added 78 cents to comparable earnings per share in the current financial year, with a forecast contribution of 112 cents in 2017.

The SS Telecoms and Commercial ICT acquisitions, effective from 1 December 2016, are expected to contribute about 7 cents per share to the 2017 results.

Strategic focus

Our key strategic focus is always the management of the relationship between margins, inventories and costs. Our existing businesses are very cash generative and we will continue to use this cash to make accretive acquisitions that diversify and strengthen our business. We will continue to add value to our product offering and to grow our businesses geographically. The thrust of our initiatives in Africa remains around servicing customers and appointing reliable distributors.

Prospects

Notwithstanding the challenges that are bound to arise from the economic and political environment both nationally and internationally, we are optimistic that earnings in 2017 will be impacted positively by a combination of factors:

- we ended the year strongly and several businesses have come into the new year with a much healthier order book;
- there are signs of improvement in certain of the sectors in which some of our businesses operate; strengthening in commodity prices since June last year should positively affect mining and manufacturing activity;
- the strengthening Rand should allow us to release cash from inventories;
- we are seeing relief from the crippling drought of the past two years; and
- we have made high potential growth acquisitions in recent months.

Lawsuit against Bravura and certain associates

The legal case against Bravura and certain of its associates for up to R490 million is continuing slowly. Hudaco has brought the action to recover, *inter alia*, secret profits made on the financing arrangements around the Hudaco BEE transaction that ran from August 2007 to February 2013.

Appreciation

We thank the executives in all the businesses and their management teams for their sterling efforts in yet another challenging year for the group. There is excellent quality and a wealth of experience in the management of the group, not only among the members of the executive committee but at individual business level too. We appreciate the dedication and hard work of all our staff throughout the group. We also value the co-operation and support from our loyal suppliers and customers, who are obviously also operating in difficult times. Thank you.

At the end of November Jack Edery retired after 20 years' service with Elvey Security Technologies. We thank him for the contribution he has made to Hudaco over the years.

The governance and overall direction of the group is in the capable hands of a board of experienced directors who interact effectively and always have the best interests of the company at heart. We thank the board members for their guidance over the year.

RT Vice
Chairman

GR Dunford
Chief executive

2 February 2017

STRATEGIC FOCUS

2016		
• Improve returns from Bearings International	✓	
• Manage gross margins, expenses and working capital	✓	
• Increase sales into Africa	✓	
• Make small acquisitions	✓	
• Achieve branch synergies across businesses	x	In progress

2017
• Achieve branch synergies across businesses
• Make further acquisitions
• Bolster senior executive team
• Succession planning for senior non-executive directors

STAKEHOLDER ENGAGEMENT

In terms of the requirements of sustainability reporting standards, we ask stakeholders what material information they require to maintain a mutually successful and sustainable business relationship. Stakeholders we are accountable to are: investors, shareholders, principals/suppliers, staff, customers and communities in the vicinity of our premises. In this report, we aim to provide each with information on material issues as identified in the table below.

We have rated the following stakeholders as the most significant (in no particular order) based on the likelihood that they will access and use this report, our ability to provide information that will be useful to them and their level of interaction with the group:

- Shareholders and investors, current and future, private and institutional;
- Staff: the 3 096 people in Hudaco's approximately 30 businesses;
- Principals/suppliers; and
- Bankers.

The table below details the issues considered by stakeholders to be material. These were determined through our stakeholder engagement process, which included discussions with members from each of the stakeholder groups, either directly or through executives of our businesses. At results discussions, the investment community is invited to suggest further disclosure where they identify a need for specific information, as are bankers during annual review meetings. Major topics of interest this year for several categories of stakeholders included acquisition opportunities arising from the weak economy, other implications of a lack of economic growth in South Africa, volatility of the Rand and potential ratings downgrades for South Africa. The relevance of the various sections of this report to the different classes of stakeholders is set out on the inside front cover.

Stakeholders' material issues

Stakeholders	Relationship	Reason	Material issues	Communication forum
Private shareholders and institutional investors	Shareholders	Derive dividend income from trading performance and capital appreciation from market value of Hudaco shares.	• Compliance, governance • Share price, dividend policy, return on investment, profitability • Management competence • Succession planning and depth of management • Growth strategy • Business model • Acquisitions – deal flow and success • Executive remuneration • Status of litigation • Other risks	• Integrated and interim reports • Informal discussions • Results presentations • Hudaco website • Annual general meeting • Press interviews • SENS announcements
Bankers	Financiers	Take credit risk on and derive interest and fee income from Hudaco.	• Statements of financial position, comprehensive income and cash flows • Nature of litigation risk • Succession planning	• Integrated and interim reports • Annual credit review meetings • Capital raising and other discussions
End users of products	Customers	Hudaco supplies them with quality products at reasonable prices and technical support to sustain their operations.	• BEE credentials • Brand • Product quality • Technical support • Service turnaround • Pricing • Reputation	• Personal contact • Product marketing • Service levels • BEE scorecards • Business unit websites • ISO accreditation

Stakeholders	Relationship	Reason	Material issues	Communication forum
Management of businesses	Management, potential vendors	Rely on Hudaco for their livelihood and meeting career aspirations as well as for investment-related returns through the share appreciation bonus and share matching schemes.	• Hudaco brand, association with quality products, endorsement in market through association • Treasury function, insurance, company secretarial functions, internal audit • Synergies within the group • Management and resource support from centre for growth • Company structure, relevance of Hudaco group issues to operations • Business model • Leadership succession planning, careers, knowledge management systems • Functional relationships with group management • Cash position during earn-out process • Remuneration	• Integrated report • Results presentations (internal) • Management conferences • Personal contact • Retirement fund reports • CFO meetings
Owners of privately-owned businesses	Potential vendors	Hudaco provides a potential exit strategy or a means of realising the value in their businesses and building a career within the group.	• Acquisition and earn-out process • Exit opportunities • BEE credentials • Support for growth opportunities	• Integrated report • BEE scorecards • Personal contact
Principals	Suppliers	Rely on Hudaco for a route to market without them having to establish a presence in SA, a relatively small market which has significant regulatory complexities.	• Market shares • Sales forecasts • Stockholding and ordering processes • Distribution strengths • Customer penetration • Cultural barriers in dealing with local buyers • Credit-worthiness	• Personal contact • Integrated report • Business unit websites • ISO accreditation
Employees	Staff	Rely on Hudaco for their livelihood (during and post-employment) and personal development to meet career aspirations. Black employees and their close family may be eligible for bursaries from the BEE bursary scheme.	• Career development • Leadership succession planning • Remuneration • Skills retention and development • B-BBEE • BEE bursary scheme • Health and safety	• Integrated report • Policy documentation • Personal contact • Retirement fund reports • BEE bursary scheme communications • Wellness days • Health and safety reports
Government	Tax collector, transformation regulator	Rely on Hudaco to collect and remit indirect taxes, to pay direct taxes and to progress transformation.	• VAT • PAYE • Income tax • Dividends tax • Customs duty • BEE	• Statutory returns • Integrated reports • Results presentations • Correspondence • BEE certification

RISKS AND MITIGATION

Key risks

In the table below, we highlight the key risks faced by the group and how these risks are mitigated:

Risk	Explanation	Potential exposure	Mitigation	Residual risk assessment/ probability	Associated opportunity
24 Foreign exchange rate risk – significant strengthening of the Rand	If the Rand strengthens, the purchase prices of our products drop and selling prices must be reduced to remain competitive. This reduces gross profit and since our expenses are Rand-based, they do not decline. Net operating profit decreases.	For each 10% by which the Rand strengthens, operating profit could decrease by R160 million per annum.	Management of quantities and lead times helps to delay the impact. Management intervention to increase gross margins. The primary risk cannot be mitigated.	Variable depending on extent. This risk is integral to our strategy of holding inventory to provide customers with ready availability of imported goods with long lead times.	A sustained weakening of the Rand by more than the inflation rate without significant volatility would result in gross profits rising faster than expenses, increasing the operating profit margin.
Inadequate supply of electricity	The lack of electricity is a constraint on GDP, a significant driver for Hudaco. The mining industry, in particular, tends to be affected when electricity is in short supply.	Unable to quantify.	Geographic diversification to other southern African countries. Acquiring businesses that serve different sectors, some of which are less dependent on electricity supply.	Less than even chance under current depressed economic conditions. This risk is integral to our strategy of supplying to industries that happen to have high electricity requirements.	Potential to sell batteries, inverters, solar products and generators to industry.
Credit risk	Although credit risk is well spread and larger debtors are usually blue chip, government now awards large contracts to new BEE entities, on which we have to take credit risk.	R40 million.	We manage the delivery process as closely as possible and strive to find other ways to minimise this risk.	Unlikely. This risk is a consequence of BEE procurement.	If managed well, there are significant opportunities in supplying the requirements of government.
51 Not meeting BEE requirements	Although Hudaco has put in place an appropriate BEE shareholding structure and targets on the dti scorecard have been achieved, this is against a backdrop of ever changing requirements. Certain industries (eg mining) have their own charters with different requirements and certain entities set criteria more stringent than the applicable charter. Sales may be lost through not having adequate BEE credentials.	Unable to quantify.	The group transformation and human resources executive monitors legislation and charter requirements to keep our businesses abreast of new requirements. He helps to ensure the necessary certifications have been obtained by each business. Aspects such as ownership requirements are escalated to board level.	Less than even chance. This strategic risk is part of doing business in South Africa and is always front of mind in operations.	We have been able to grow the group through acquisitions because we offer strong BEE credentials to vendors. Also, as competitors are faced with the same BEE challenges, we are able to attract business from those that fall short of requirements.
Natural disaster at supplier or customer	A natural disaster could cripple a factory of a major supplier (or of a component supplier to our supplier) or the operations of a major customer.	R20 million.	We carry up to six months' stock which gives time to react to such an event. Major suppliers generally operate from several factories in different cities and/or countries. The loss of a factory could be disruptive to the supply of certain products but production would be quickly moved to other factories. The group has a widespread supplier and customer base and is not overly reliant on any single one. Insurance is held against supply interruptions.	Less than even chance. This is always a risk in a supply chain environment.	Natural disasters do not represent an opportunity to the group, except to the extent that those competitors whose suppliers do not have the same level of geographic diversification as ours may be affected more heavily.
Local manufacturer more competitive	Although for most of our key agencies there is little prospect of a local manufacturer being able to produce a product of similar quality at a competitive price, there are some where this could be a threat when the Rand and the economy are weak.	R30 million.	Carrying a second tier range, which many of our businesses do and finding other sources of supply reduce the potential impact.	Highly unlikely for major brands but more risk on lesser product lines.	Second tier brands have been successful for the group. We distribute some excellent local products and could get distribution rights for emerging quality local brands.

Risk	Explanation	Potential exposure	Mitigation	Residual risk assessment/ probability	Associated opportunity
Loss of key executives in businesses or at group level	When members of the executive team retire or leave the risk is that transition could have a significant negative effect on the group. Some businesses are sold to us as an exit strategy for some of the existing owners. Succession planning and integration into the group is therefore vital for sustainability of the business.	Unable to quantify.	The group has a formal succession policy. Succession plans, emergency and planned, are considered annually by the remuneration and nomination committee. Members of the group executive team have developed in-depth knowledge of each business. Replacements for executives who retire are able to spend several months working under the guidance of their predecessors and experienced people are appointed to the executive committee when required. Earn-out periods keep vendors in acquired businesses to facilitate transition.	Highly unlikely. The risk is always prevalent but arises specifically through the strategy of growing the group by acquiring entrepreneurial businesses.	Retirement of members of the executive team creates visible opportunities to which the next level of management can aspire. This provides them with an incentive to prove their value through superior performance.
Loss of a major brand	While the portfolio of brands is diverse, there are two major brands the loss of which could have a significant effect on the results of the group. These brands, each of which contributes approximately 7% of group operating profit, would be hard to replace. The portfolio also includes several other important brands.	Up to R60 million in operating profit per annum per brand.	Maintaining strong relationships with principals and serving them well in the South African market. This is monitored by the audit and risk management committee. The relationships with the major brands are managed by the group chief executive. Acquisitions increase the number of suppliers and dilute exposure to any one brand. The element we cannot mitigate is the risk that a major principal ceases to exist.	Highly unlikely. This risk follows from the strategy of representing quality major international brands.	There would not be an opportunity associated with the loss of one of the group's two major brands. The loss of a lesser brand may present an opportunity to bring into the portfolio a brand that has something more to offer.
Poor acquisition	Acquired business performs well below expectations or exposes the group to significant unexpected risks.	R150 million.	Approving acquisitions on the basis of thorough due diligence reviews conducted by professionally qualified advisors and by our own experienced acquisitions team.	Unlikely. This risk is introduced by the strategy to grow the group by acquisition.	Quality acquisitions add significant value to the group.
Sustained labour unrest in the mining or manufacturing sectors	Of group turnover, currently 13% is sold directly to the mining industry and 21% into manufacturing, much of which is to service the mining industry.	R40 million.	The group has a diverse customer base both within and outside of mining. It is unlikely that all types of mining will be affected.	Better than even chance.	This provides an incentive to further diversify the customer base through extending our range of products and customer geographies.
Ineffective insurance	The risk that there is a major loss (eg through fire) and that the insurance claim is not met because the policy was defective or the insurer fails.	R120 million.	Insuring through reputable long-established underwriters and engaging high-quality insurance brokers as advisors.	Unlikely.	No associated opportunity.
Increase in interest rates	Acquisitions have been funded through borrowings, which introduces the risk that finance costs will go up if market interest rates increase.	R20 million per annum if the JIBAR increases by 2% per annum.	Effective management of working capital to minimise exposure. Other forms of raising funds for acquisitions can be considered.	Even chance.	Higher interest rates could have the effect of reducing prices of businesses for sale.
Litigation risk	The group is involved in litigation from time to time. In such instances there is a risk of loss if Hudaco is the defendant and of costs if Hudaco is the plaintiff.	R25 million.	Use of high quality legal firms and advocates and careful management of cases, including through thorough preparation.	Highly unlikely.	Depending on the circumstance, legal action could provide the opportunity to recover assets, preserve reputation or defend a threat to assets.

BOARD OF DIRECTORS

NON-EXECUTIVE DIRECTORS

Royden Vice (70)

BCom, CA (SA)
Independent non-executive chairman of the board and the nomination committee and member of the remuneration committee

Royden is chairman of Waco International, having retired as its CEO in 2011. He joined Waco in 2002. He served as a non-executive director of Murray & Roberts Holdings and Life Healthcare Group Holdings, chairman of Puregas as well as a governor of Rhodes University. Royden was CEO of Industrial and Special Products at the UK-based BOC group. He was also chairman of Consol Glass and chairman and CEO of African Oxygen Limited (Afrox) and Afrox Healthcare.

Royden joined the board in 2007 and became its chairman in 2009.

Nonyameko "Nyami" Mandindi (50)

BSc (Quantity Surveying), Executive Masters in Positive Leadership and Strategy
Independent non-executive director, chairman of the social and ethics committee and member of the audit and risk management committee

Nyami started her career as one of the first black female quantity surveyors in South Africa. As one of the founding partners of a QS firm in the 1990s, she contributed to the growth of the firm to one of the top five quantity surveying businesses in SA. She has also been involved in various large infrastructure and property development initiatives including the OR Tambo Airport, Monte Casino, Gautrain, the Sandton Convention Centre, Maputo corridor and several public transport facilities. She has vast operational experience having served as CEO of Intersite and project manager for Rea Vaya BRT system for the City of Johannesburg. She also served as CEO and business line director Southern & East Africa of Royal Haskoning DHV, where she was part of the global leadership team, leading the Africa Growth Strategy.

Nyami has been an independent non-executive director on several boards including Acucap Properties Limited, The South African Rail Commuter Corporation, Alexandra Social Housing Company, Intersite, Denel SOC and Propnet, a division of Transnet.

Nyami joined the board in June 2015.

Stuart Morris (71)

BCom, CA (SA)
Independent non-executive director, member of the audit and risk management committee, chairman of the remuneration committee and member of the nomination committee

Stuart is a non-executive director of City Lodge, Rolex Watch (SA), Zurich Insurance (RSA) and chairman of Sasol Pension Fund and Wits Donald Gordon Medical Centre. He worked for KPMG South Africa for over 30 years, ultimately becoming senior partner and a member of the KPMG International executive and board.

He was Nedbank Group financial director from 1999 until he retired in 2004.

Stuart joined the board in 2009.

Dhanasagree "Daisy" Naidoo (44)

Masters in Accounting (Taxation), CA (SA)
Independent non-executive director, chairman of the audit and risk management committee and member of the social and ethics committee

Daisy serves as an independent non-executive director on the boards of Anglo American Platinum, Barclays Africa Group, Mr Price Group, STRATE and Omnia Holdings. In addition, she chairs the audit committees of Mr Price and STRATE. She is also a member of the Tax Court of South Africa and a trustee of the Discovery Medical Aid Scheme and the South African Investors Protection Fund.

She spent nine years with Sanlam Capital Markets, including as head of the Debt Structuring Unit.

Daisy joined the board in March 2011.

Stephen Connelly (65)

ACMA
Non-executive director

Stephen immigrated to South Africa in 1976. In 1982 he was a founding partner of Valard Limited where he was managing director. Valard was acquired by Hudaco in 1992. Stephen was Hudaco's chief executive for 22 years until his retirement in 2014. He continues to serve on the board in a non-executive capacity.

In April 2016 he joined the board of Distribution & Warehousing Network (DAWN) as an independent non-executive director and on 1 June 2016 was appointed interim CEO of the DAWN group.

Stephen joined the board in 1992.

EXECUTIVE DIRECTORS

Graham Dunford (52)
N Dip: Mechanical Engineering
Chief executive and executive committee chairman

Graham joined Hudaco in 2001 when it purchased Bauer Geared Motors, where he was the managing director. He became CEO: Electrical power transmission in 2005, CEO: Power transmission in 2009 and CEO: Bearings and power transmission in 2010.

He joined the board in 2009 as an alternate director and became a full board member in July 2010.

He was appointed group chief executive in July 2014.

Clifford Amoils (55)
BCom, BAcc (cum laude) CA (SA)
Group financial director and member of the executive committee and social and ethics committee

Clifford was a partner at Grant Thornton for 21 years and headed its audit division. He was a member of its National Council and served on Grant Thornton International's Audit Advisory Committee. He is a member of the Financial Reporting Investigation Panel of the JSE.

He joined the board in 2009.

EXECUTIVE COMMITTEE

GRAHAM DUNFORD (52)

N Dip: Mechanical Engineering

Chief executive

28 years' service

JONNY MASINGA (39)

N Dip: HR Management, B Tech: HR Management, B Tech: HR Development, MAP

Group executive: Transformation and human resources

Six years' service

BARRY FIELDGATE (55)

Portfolio executive: Berntel, Bosworth, Brewtech Engineering, Ernest Lowe, Filter and Hose Solutions, Global Communications, HERS, MiRO, SS Telecoms and executive: Africa development

Nine years' service

BRIAN CONSTANÇON (63)

BCom, BAcc, CA (SA)

Portfolio executive: Electrical power transmission and steel

34 years' service

CLIFFORD AMOILS (55)

BCom, BAcc (cum laude), CA (SA)

Group financial director and chairman of Elvey Security Technologies

Eight years' service

REANA VAN ZYL (50)

BProc, LLB, HDip: Labour Law

Group secretary

Eight years' service

DAVID ALLMAN (58)

S.A.I.M. Dip: Marketing Management/ Production Management

Portfolio executive: Abes Technoseal, Astore Keymak, Bauer, Bearings International, Deltec and Specialised Battery Systems

30 years' service

Service is with Hudaco and businesses acquired.

The executive committee is chaired by the chief executive, Graham Dunford, and meets quarterly, prior to the board meeting.

Its principal terms of reference are to advise the chief executive on the formulation of operating policy, the implementation of group strategy and the management of key group risks.

CHIEF EXECUTIVE

CONSUMER-RELATED PRODUCTS

Automotive
- Abes Technoseal
- Deltec
- Partquip
- Specialised Battery Systems

Security equipment
- Commercial ICT
- Elvey Security Technologies
- Pentagon

Communication equipment
- Global Communications
- MiRO
- SS Telecoms

Power tools
- Rutherford

ENGINEERING CONSUMABLES

Bearings and power transmission
- Ambro Steel
- Astore Keymak
- Bauer
- Bearings International
- Belting Supply Services
- Berntel
- Bosworth
- Brewtech Engineering
- Dosco Precision Hydraulics
- Ernest Lowe
- Filter and Hose Solutions
- Gear Pump Manufacturing
- HERS
- Joseph Grieveson
- Powermite
- Proof Engineering
- Sanderson Special Steels
- Three-D Agencies
- Varispeed

Diesel engines and spares
- DD Power
- Deutz Dieselpower

GROUP SERVICES

Finance
- Accounting
- Finance
- Risk
- Tax
- Treasury

Human resources
- Human resources
- Occupational health and safety
- Transformation

Compliance
- Group secretarial

Africa
- Africa development

FINANCIAL REVIEW

The key financial characteristics of the group are high returns on net operating assets and strong cash flows. These are used to fund additional working capital as our businesses grow, pay market-related dividends and invest in new businesses when opportunities are found.

Clifford Amoils
Financial director

Measurement of financial performance

Our overriding financial objective is to achieve long-term growth in earnings and dividends per share, and our internal operating measures and incentive programmes are geared towards this goal. We measure our financial performance based on comparable earnings because we believe it is more representative of the ongoing results of the group. Comparable earnings exclude the impact of the following:

- Profits and/or losses that arose because the results of businesses acquired in recent years were different from the estimate we made at acquisition for initial recognition, resulting in a smaller or larger earn-out payment than estimated. The revised IFRS 3 requires that, where a business is acquired on the basis of a contingent purchase consideration, changes to the estimated purchase price be recognised in profit for the year. The accounting is counter intuitive because a loss arises when the acquired business performs better than expected and a profit arises where it underperforms expectations. In 2016 the gain increased earnings per share by 51 cents, compared with a decrease of 7 cents in 2015.
- The restructuring of the financing arrangements relating to our BEE structure on 28 February 2013. Prior to the restructure, there was a tax advantage from preference dividends that then fell away. This is relevant only to historic figures in the seven-year review in that it affected the years prior to 2014.

We measure our financial performance as follows:

- We target real growth in comparable earnings per share over the medium and long-term. Comparable EPS for 2016 is 1 171 cents as compared to 1 169 cents in 2015. Compound growth in comparable EPS over the past 10 years has been 8,2%, from 533 cents in 2006.

- Hudaco aims to achieve earnings growth at a rate at least in line with the earnings of the All Share Industrial Index (J257). Since 2006, earnings in the J257 showed compound growth of 7,3%. To achieve this, we encourage our businesses to grow while producing a return over time exceeding the cost of capital. We are pleased to have outperformed the growth in the industrial index, notwithstanding the difficulties in achieving growth with the turmoil in what had been our core markets for so much of the 10-year period – mining and manufacturing.
- Return on equity is an important measure at group level. We target to achieve ROE of a minimum of 18% but strive to reach 24%. The ROE in 2016 was a credible 21%.
- The main operating performance measure used by the group is RONTA – the return (PBITA) on average net tangible operating assets (NTOA) employed during the year. NTOA is total assets excluding investments, goodwill, intangibles and cash, less current liabilities excluding interest-bearing debt. Each business is measured against its own benchmark – its objective being to maximise its RONTA by managing the balance between the operating profit margin (%) and net operating asset turn (times). The lower the operating profit margin, the higher the net operating asset turn has to be to achieve a return exceeding the cost of capital.

Industrial distribution businesses such as ours typically generate an operating profit margin of between 8% and 15% and we achieved 11,6%. A NTOA turn of between three and four times is usual and requires management to achieve the right balance between the elements of working capital, ie inventory, receivables and supplier credit.

A RONA of 14% roughly equates to the pre-tax cost of capital at current interest and income tax levels. We use this as the 'hurdle rate' for new investments. We have set an internal target of RONTA of no less than 30% for the group as a whole. In 2016 the RONTA was 35% (2015: 39%).

Dividends

Hudaco's long-term dividend policy is to pay interim and final cash dividends to shareholders totalling between 40% and 50% of comparable earnings, resulting in dividends being covered by earnings by between 2,5 and 2,0 times. This year's dividends per share total 525 cents, the same as was paid last year, and are made up of an interim dividend of 170 cents and a final dividend of 355 cents, representing a total of 45% of comparable earnings. The reason for increasing the upper end of the range in recent years is the increased tax charge that arose from the unwinding in 2013 of the financing arrangements pertaining to the group's BEE structure. The board made it clear at the time that it was the intention not to decrease the dividend, even though the cover was lower.

Cash flow

Hudaco businesses are cash generative. The steep decline in the Rand late in 2015 against the basket of currencies we purchase has meant that our imports for much of 2016 cost considerably more than previously. This has absorbed cash into inventories but has been releasing cash with added margin as the goods are being sold. The general economic stagnation has inhibited the generation of cash from certain businesses but that is transient and not endemic to the business model. Other of our businesses have compensated for this with very strong cash flows.

Cash flow from operating activities of R567 million, after investing R41 million in working capital and paying R174 million in taxation, was strong and once again demonstrates the cash-generative nature of Hudaco's businesses. R173 million was paid out as dividends, finance costs were R87 million and R30 million was spent on property, plant and equipment. R168 million was invested in new businesses, which included earn-out payments and long-term borrowings were decreased by R90 million. Net short-term borrowings decreased by R21 million to R195 million.

Borrowings

Hudaco's borrowings have arisen from the acquisition strategy to achieve growth in the face of a moribund economy but the gearing deliberately remains conservative. At 30 November 2016, net borrowings amounted to R905 million, after the acquisitions in 2016 and 2015 of MiRO, HERS, Brewtech, All-Trade, Partquip, Sanderson Special Steels and Berntel. During the year, the interest rate on the R300 million credit facility with Rand Merchant Bank was reduced from JIBAR plus 1,60% to JIBAR plus 1,44%, which is in line with the R500 million facility with Absa. There is also a R300 million facility with Standard Bank at an interest rate of JIBAR plus 1,60%. All three are evergreen revolving credit arrangements whereby a bank is required to provide 367 days' notice should it wish to call up the facility but Hudaco has full flexibility to make repayments and to redraw funds, subject to basic credit assessments at certain levels.

Hudaco has the capacity to take on more senior debt and our acquisition strategy may create the opportunity to do this in future. Perhaps more important than managing gearing is an objective to ensure that interest on senior debt is covered at least five times by operating profit. We also aim to operate with EBITDA being at least 50% of net senior debt. Our covenants with the banks are less onerous, being four times interest cover and EBITDA 40% of net senior debt.

Taxation

The group's effective rate of taxation this year is 27% (2015: 27%). There are no existing factors that would result in the rate varying significantly from the normal rate.

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The gross contribution to government in South Africa, comprising direct and indirect taxation, amounts to R520 million (2015: R509 million) for the year ended 30 November 2016. The composition of this figure is set out in the value added statement on page 28.

Hudaco strives to acquire the assets and liabilities of businesses rather than shares in companies. For various reasons, that could not be achieved in the cases of the Dosco and Partquip acquisitions. We have recently succeeded in obtaining a private binding ruling from SARS that will facilitate the transfer of the businesses of Partquip and Dosco from the separate subsidiary companies to Hudaco Trading directly, without prejudicing the deductibility of the interest payable on the borrowings used to acquire those subsidiaries. While the primary reason was the efficient and consistent structuring of the group, there will also be a short term cash flow benefit from no longer having the operating profits and the interest charges in the different legal entities.

Financial risk management

16, 17

Significant financial risks in the group have been identified and are considered at each board, executive committee and audit and risk management committee meeting. These are described on pages 16 and 17. The impact of each risk is quantified and its probability is assessed. Measures are put in place to manage the risk, after which the residual risk is assessed. A risk tolerance line helps to ensure that any risks potentially greater than an acceptable level are identified early and avoided or mitigated. The ways in which the group manages foreign currency risk, interest rate risk, credit risk and liquidity risk are fully set out in note 24 to the financial statements.

Each business has its own financial team in place which operates substantially independently but to group prescribed standards and policies. The size and strength of the team depends on the size and complexity of the business. Smaller businesses are provided with appropriate support from within the group.

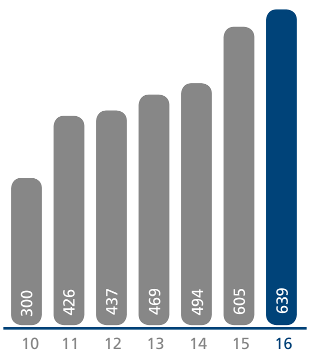
Group services

Services currently handled at head office, and provided free of charge to operating businesses, are tax, company secretarial, treasury (including foreign exchange and hedging), insurance, employee benefits and group risk (including internal audit and IT governance). Buying foreign exchange through head office is easier and cheaper for a business than dealing directly with a bank. Businesses enjoy lower bank charges, rates of interest and insurance premiums as well as better risk benefits for employees by being part of the Hudaco group.

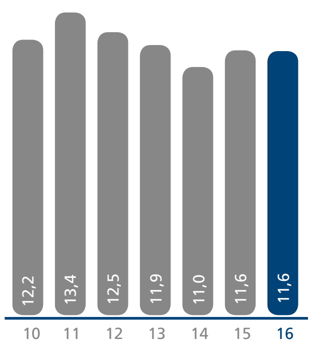
Impact of changes in foreign exchange rates

As Hudaco is predominately an importer, prices charged are linked to the Rand exchange rate. While Hudaco's sales line is affected by exchange rate movements, the group's expense line is affected by the local rate of inflation. This imbalance represents a real risk that sales could fall in response to a strengthening Rand whilst expenses, driven by local inflation, continue to rise. The result would be a margin squeeze. We estimate that a 10% strengthening of the Rand could, without management intervention, result in a R160 million

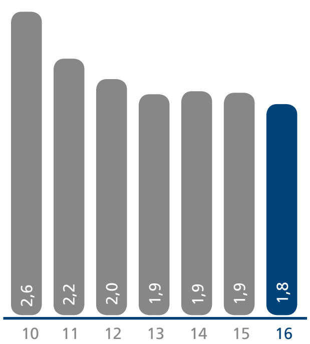
OPERATING PROFIT (RM)



OPERATING PROFIT MARGIN (%)
OPERATING PROFIT/TURNOVER

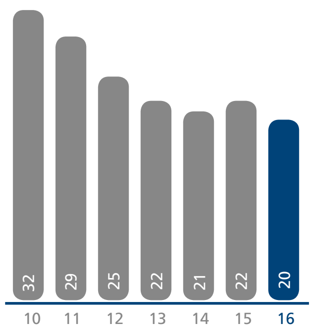


NOA* TURN (TIMES)
TURNOVER/AVERAGE NOA



* Net operating assets

RETURN ON NOA* (%)
OPERATING PROFIT/AVERAGE NOA

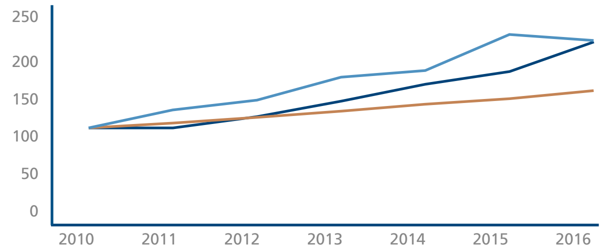


fall in operating profit over a full financial year. Similarly, sustained weakness in the Rand creates the opportunity for higher operating margins but currency volatility can either negate or postpone any favourable impact on earnings. 2016 has seen a significant volatility of the Rand, particularly around significant political events and the times that the international ratings agencies conducted their assessments of South Africa's credit rating. We live in very interesting times.

Over time, one would expect the Rand to weaken by the inflation differential between South Africa and its trading partners, allowing us to pass on imported inflation to our customers at roughly the same rate as the local inflation rate. As we are only too well aware, the Rand is volatile and does not follow the inflation rate differential in the short term. As an importer of our particular portfolio of products, we find ourselves exposed primarily to the Rand-Dollar and Rand-Euro exchange rates. Many of our suppliers manufacture from plants positioned all over the globe, and are therefore able to hedge themselves against currency exposures by shifting production capacity over time between currency regions but this does not help with short-term fluctuations between currencies, least of all the Rand.

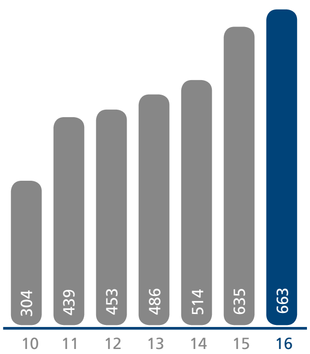
The volatility the currency has experienced has made pricing a challenge and margins have been kept under pressure, particularly in the weak economic environment that the region has experienced, driven primarily by low-commodity prices and political uncertainty, both local and international. The impact of the precipitous fall in the value of the Rand following the surprise changes in finance minister in December 2015 resulted in inventory costing Hudaco much more but it took time to get the market to accept price increases of that magnitude and then the subsequent strengthening of the currency put further pressure on margins. The graph below shows how the weighted exchange rate index for the basket of currencies that Hudaco purchases has moved relative to the consumer price index (CPI). Our basket of currencies, on average, cost 19% more in 2016 than in 2015.

HISTORICAL MOVEMENT IN FOREIGN EXCHANGE RATES FOR HUDACO'S BASKET OF CURRENCIES

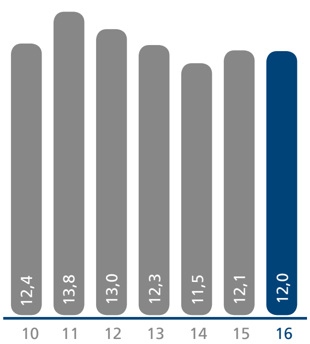


– Average currency index
– Average CPI
– Year end currency index

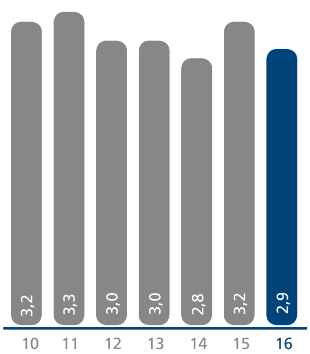
PBITA** (RM)



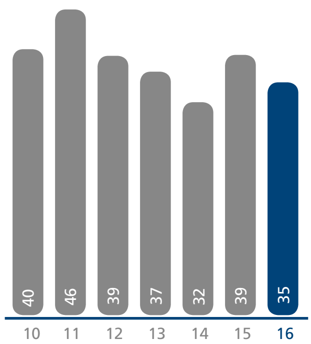
PBITA MARGIN (%)
PBITA**/TURNOVER



NTOA*** TURN (TIMES)
TURNOVER/AVERAGE NTOA



RETURN ON NTOA*** (%)
PBITA**/AVERAGE NOA



*** Operating profit before amortisation*

**** Net tangible operating assets*

FINANCIAL REVIEW continued

We take out forward exchange contracts to meet future payment obligations in accordance with our hedging policies. Management of our foreign currency exposure is based on the principle of avoiding speculation. All foreign currency liabilities are hedged by the time ownership of the asset passes to Hudaco. In addition, on average approximately 30% of orders on suppliers are also hedged to guard against spikes in exchange rates. An important driver of the extent to which orders are hedged is the opportunity to change selling prices between the dates of placing the order on the supplier and delivery to the customer.

Response times to exchange rate fluctuations through pricing changes, both up and down, have traditionally been fairly quick (about three weeks to a month) but there is a built-in cushion in our five-month stockholding so prices on all products may not change at the same time.

IT systems

In line with our decentralised business model, the management team at each business is free to select whichever IT platform it considers most appropriate for the business concerned. There is no centralised IT platform and standardisation is not imposed but businesses are encouraged to take a lead from those most satisfied with their reporting systems. Generally, little modification is required to off-the-shelf software. The IT governance committee provides input where appropriate and maintains an oversight role regarding control and best practice. For more information on how IT is governed in the group, refer to the corporate governance report, specifically page 38.

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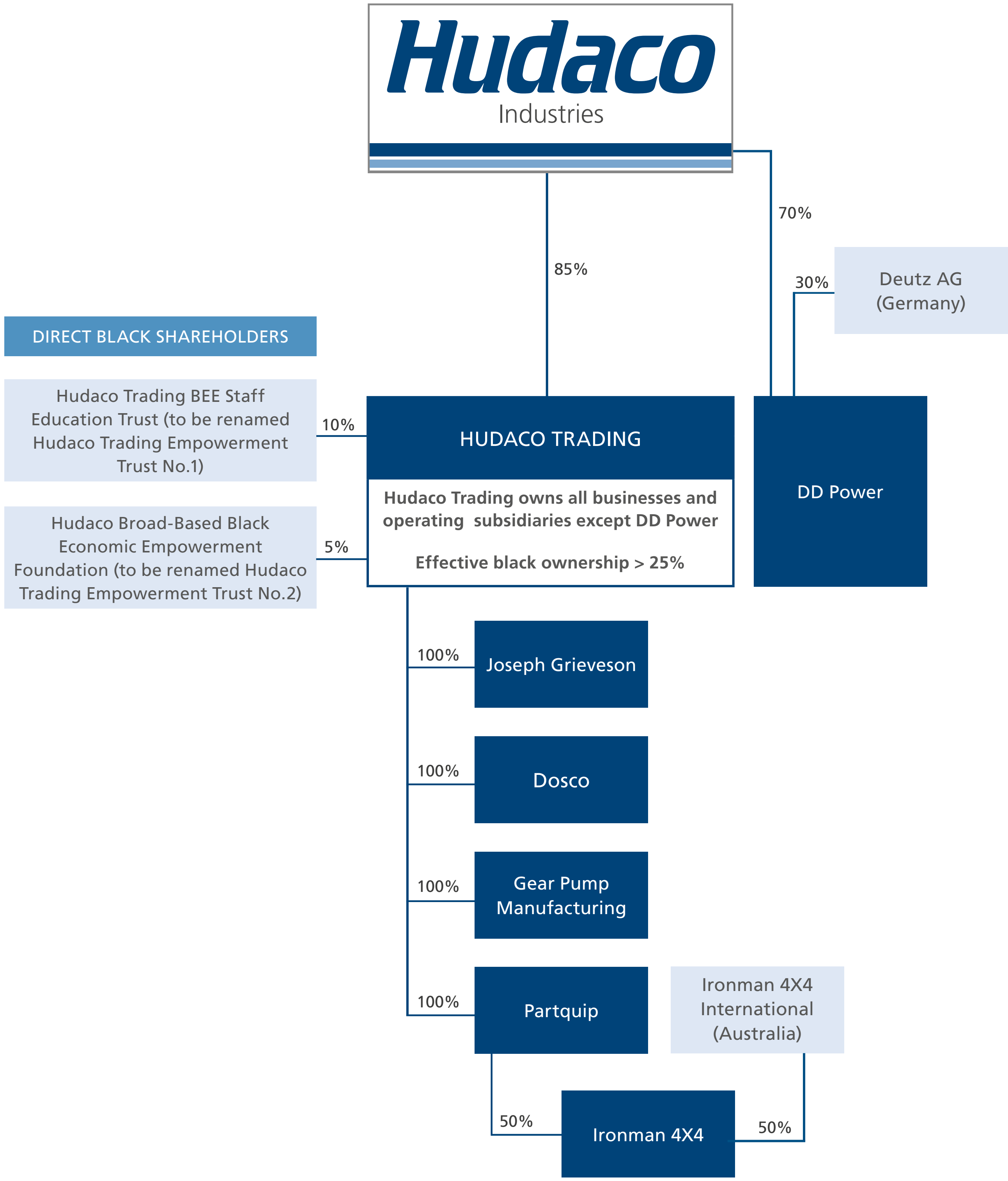
Abridged group structure



VALUE ADDED STATEMENT

The group value-added statement measures the wealth the group has created in its operations by "adding value" to the cost of raw materials, products and services purchased. The statement below summarises the total wealth created and shows how it has been shared by the stakeholders who contributed to its creation. It also reflects the amount retained and re-invested in the group for the replacement of assets and the further development of operations. Also set out below is an analysis of the gross contributions by the group to the government in South Africa.

GROUP VALUE ADDED STATEMENT

R million	2016	2015
Turnover	**5 534**	5 230
Less: Cost of materials, facilities and services from outside	**3 867**	3 631
Value-added	**1 667**	1 599
Capital items	**19**	(2)
Income from joint ventures	**3**	3
Total wealth created	**1 689**	1 600
Distributed to:		
Employees – salaries, wages and other benefits	**960**	924
Government (gross contributions)	**520**	509
Indirect contributions, duties and levies	**(373)**	(368)
Net finance costs	**101**	76
Shareholders – dividends	**174**	158
Maintain and expand the group		
– profits retained	**239**	231
– depreciation and amortisation and impairment	**68**	70
Total wealth distributed	**1 689**	1 600

STATEMENT OF GROSS CONTRIBUTIONS TO THE GOVERNMENT IN SOUTH AFRICA

R million	2016	2015
Company income tax	**147**	141
Customs and excise duty	**84**	90
Skills development levies and assessment rates	**8**	9
Value-added tax not recognised as input credit	**3**	3
Direct contribution to government	**242**	243
Add the following collected on behalf of the government:		
Value-added tax (net)	**155**	130
Employees' tax	**123**	136
	520	509

CORPORATE GOVERNANCE

Hudaco is committed to maintaining a high standard of corporate governance and to creating value for stakeholders in a balanced, ethical and sustainable manner. The board seeks to ensure that good governance, which includes the ethical values of responsibility, transparency, accountability and fairness, is practised at all levels in the group and that it is an integral part of Hudaco's operations.

The board is the focal point of the group's corporate governance system and remains ultimately accountable and responsible for its performance and affairs.

A corporate culture of compliance with applicable laws, regulations, internal policies and procedures has been established within the group. Responsible corporate citizenship and accountability for stewardship of assets have played a key role in securing sustainable returns and serve to provide stakeholders with the assurance that the group's businesses are managed appropriately.

Application of and compliance with King III and King IV

Integral to Hudaco's commitment to good governance is compliance with the King Code of Governance for South Africa (King III) that is recognised as the definitive code for listed and unlisted companies in South Africa and is, therefore, the main code of conduct to which Hudaco subscribes.

The King IV Report on Corporate Governance for South Africa (King IV) was published on 1 November 2016 and will be applicable on Hudaco Industries Limited in respect of it's accounting year which commences on 1 December 2017. The board is committed to ensuring compliance with King IV in due course.

Exceptions to King III

While the head of internal audit reports functionally to the audit committee, she reports administratively to the group financial director. The committee believes that the group financial director respects and encourages the independence of the internal audit head and her department and is satisfied that the required independence is maintained.

Because of the nature of the information presented, the board has not considered it necessary to obtain independent assurance on sustainability reporting. The entire report is reviewed by the audit and risk management committee and recommended by it to the board.

An internal assessment of the application of King III and levels of compliance is set out in table form on page 41 of this integrated report. A detailed report of Hudaco's application of and compliance with the 75 King III principles is set out on the Hudaco website.

Our governance framework

The board performs its governance responsibilities within a framework of policies and controls, with which it manages the group's economic, environmental and social performance and provides for effective risk assessment.

The board's responsibilities are outlined in its charter which the board reviews and adopts annually. The mandates, charters and terms of reference governing the board and committees are available on request from the group secretary.

The board charter, which is aligned with the recommendations of King III and Hudaco's memorandum of incorporation, details the responsibilities and duties of the board.

Board committees facilitate the discharge of board responsibilities and provide in-depth focus in specific areas. The board reviews each committee's terms of reference at least once a year. Terms of reference set out the role, responsibilities, scope of authority, composition and procedures for each committee.

The committees report to the board through their respective chairmen and the minutes are made available to every board member.

CORPORATE GOVERNANCE continued

The executive committee members assist the group chief executive in the day-to-day management of the affairs of the group, subject to statutory parameters and matters reserved for the board.

The diagram that follows sets out the Hudaco group's governance structure, reflecting the Hudaco board as having ultimate oversight.

Board of directors

Board composition

Hudaco has a unitary board structure, comprising seven directors. Four are independent non-executive directors, one is a non-executive director and the remaining two are executive directors. A short *curriculum vitae* of each of the directors appears on pages 18 and 19 of the integrated report. Hudaco does not have or allow shadow directors.

18, 19

No individual has unfettered powers of decision-making and there is a clear division of responsibilities at board level to ensure an appropriate balance of power and authority.

The board functions effectively and efficiently and is considered to be of an appropriate size and balance for the group, taking into account, among other considerations, the need to have a sufficient number of directors to structure the board committees appropriately, regulatory requirements as well as the need to address the board's succession plans. The majority of the board members are independent directors. Non-executive directors bring diverse perspectives to the board deliberations and are encouraged to constructively challenge the views of executive directors and management.

The board understands that sound governance practices are fundamental to earning the trust of stakeholders, which is critical to sustaining performance and preserving shareholder value. The board members' collective experience and expertise provide for a balanced mix of attributes to fulfil its duties and responsibilities. The breadth of experience on the board includes mechanical engineering, finance and accountancy, public sector, property development and overall business – with some directors having chief executive experience.

In line with King III, the roles of the chairman and the chief executive are separate. The board is led by Royden Vice, an independent non-executive chairman. The chief executive is Graham Dunford.

The chairman's role is to set the ethical tone for the board and to ensure that the board remains efficient, focused and operates as a unit. The chairman provides overall leadership to the board without limiting the principle of collective responsibility for board decisions. He also ensures appropriate communication with shareholders and facilitates constructive relations between the executive and non-executive directors.

The chief executive's principal role is to provide leadership to the executive team in running the group's businesses. The board defines the group's levels of authority, reserving specific powers for the board while delegating others to management. The collective responsibility of management vests in the chief executive, who regularly reports to the board on the group's objectives and strategy.

The group financial director is Clifford Amoils. The audit and risk management committee is satisfied that he has the appropriate expertise and experience for this position.

Independent non-executive directors

The board annually evaluates the independence of board members. The directors being assessed recuse themselves from the meeting. Independence is determined against the criteria set out in King III, which defines an independent director as one who, among others is not a representative of a shareholder who has the ability to control or significantly influence management or the board; does not have a direct or indirect interest in the company which is more than 5% of Hudaco's total number of shares in issue; has not been employed by the group in any executive capacity for the preceding three financial years; is free from any business or other relationship which could be seen by an objective outsider to interfere materially with an individual's capacity to act in an independent manner and does not receive remuneration contingent upon the performance of the company. An independent director should be independent in character and judgement and there should be no relationship or circumstance which is likely to affect, or could appear to affect, their independence.

Stephen Connelly was not considered independent as a result of him having been Hudaco Industries' chief executive until his retirement in 2014.

King III further provides that any term beyond nine years for an independent non-executive should be subject to a particularly rigorous review by the board, not only of their performance but also the factors that may impair their independence. The assessment should show that the independent director's independence of character and judgement is not in any way affected or impaired by the length of service.

In this respect the board assessed and concluded that Royden Vice continues to be independent both in character and judgement, notwithstanding that in June 2016 he had been serving nine years on the board.

All the other non-executive directors are independent.

The role of the board and board procedures

The board directs the group towards and facilitates the achievement of Hudaco's strategic and operational objectives. It is accountable for the development and execution of the group's strategy, operating performance and financial results. Its primary responsibilities include: determining the group's purpose and values, providing strategic direction to the group, appointing the chief executive, identifying key risk areas and key performance indicators of Hudaco's businesses, monitoring the performance of the group against agreed objectives, deciding on significant financial matters and reviewing the performance of executive management against defined objectives and, where applicable, industry standards. A range of non-financial information is also provided to the board to enable it to consider qualitative performance factors that involve broader stakeholder interests. There is a formal schedule of material matters especially reserved for the board's approval.

The board, which meets at least quarterly, retains full and effective control over all the operations. Additional board meetings, apart from those planned, are convened as circumstances dictate. The number of meetings held during the year under review (including meetings of board-appointed committees) and the attendance of each director are set out below.

The board has unrestricted access to all company information, records, documents and resources to enable it to properly discharge its responsibilities. Management is tasked with ensuring that board members are provided with all relevant information and facts to enable the board to reach objective and informed decisions.

Board meetings are scheduled well in advance and board documentation is provided timeously. Tabling documents at board meetings is the exception rather than the rule. The board agenda and meeting structure assist the board in focusing on corporate governance, its legal and fiduciary duties, group strategy and performance monitoring, thus ensuring that the board's time and energy is appropriately applied.

Directors are kept informed of key developments affecting the group between board meetings. Non-executive directors have access to management and may meet separately with management without the attendance of executive directors.

In terms of the Companies Act, if a director has a personal financial interest in respect of a matter to be considered at a meeting of the board or knows that a related person has a personal financial interest, the director is obliged to disclose the interest and its general nature, recuse themselves and not take part in the consideration of the matter.

The board is aware of the other commitments of its directors and is satisfied that all directors allocate sufficient time to enable them to discharge their responsibilities effectively. The group secretary maintains a register of directors' interests, which is tabled at the board annually and any changes are submitted to the board as they occur.

Board charter

The board has adopted a written charter to assist it to conduct its business in accordance with the principles of good corporate governance and legislation. This charter is reviewed annually and sets out the specific responsibilities to be collectively discharged by the board members as well as the individual roles expected of board members.

The purpose of the board charter is to ensure that all the directors are aware of their powers, duties and responsibilities when acting on behalf of the company. The board charter is subject to the provisions of the Companies Act, JSE Listings Requirements, the company's memorandum of incorporation and all other applicable legislation. The salient features thereof are:

- role and function of the board;
- detailed responsibilities;
- discharge of duties;
- board composition; and
- establishment of committees.

Board meeting attendance 2016

	Jan	Mar	Jun	Oct
RT Vice	✓	✓	✓	✓
CV Amoils	✓	✓	✓	✓
SJ Connelly	✓	✓	✓	✓
GR Dunford	✓	✓	✓	✓
N Mandindi	✓	✓	✓	✓
SG Morris	✓	✓	✓	✓
D Naidoo	✓	✓	✓	✓

Board appointments

A third of the directors retire by rotation annually. If eligible, available and recommended for re-election by the nomination committee, their names are submitted for re-election at the annual general meeting accompanied by an appropriate curriculum vitae set out in the integrated report. Shareholders also approve the initial appointment of each new director at the first annual general meeting of shareholders following that director's appointment.

The nomination committee assists the board with the assessment, recruitment and nomination of new directors, subject to the whole board approving these appointments. Board members are also invited to interview any potential appointees. In general the attributes of prospective directors include individuals with the capacity to think strategically and contribute to the company's ongoing evolution of strategy, ability to work collaboratively and integrity that is above reproach. The nomination committee also considers appropriate demographic and gender diversity in its assessment.

A formal and transparent procedure applies to all board appointments, which are subject to confirmation by the shareholders at the annual general meeting. A formal policy has been adopted in this respect by the board.

Prior to appointment, potential board appointees are subject to a fit and proper test as required by the JSE Listings Requirements.

On 1 February 2017, the board formally adopted a gender diversity policy which reflects the board's view that increasing gender diversity at board level is an essential element in maintaining a competitive advantage and contributing to society at large.

In reviewing board composition, Hudaco's nomination committee is committed to considering the benefits of all aspects of diversity, specifically gender diversity in order to discharge its duties and responsibilities effectively.

The nomination committee will discuss and agree annually all measurable objectives for achieving gender diversity on the board and recommend them to the board for adoption. At the time of the adoption of the policy, women made up 28,6% of Hudaco's board. The board's aim is to ensure that at least 25% to 30% of the board of Hudaco Industries is made up of women.

Succession planning

The board's successful evolution is dependent on careful succession planning. The nomination committee is responsible for the board's succession plans and as such ensures that as directors retire, candidates with sufficient skills and experience have been identified to ensure that the board's competence and balance is either maintained or enhanced, taking into account the group's current and future needs.

Over the next year specific attention will be given to finding appropriate candidates to replace Royden Vice and Stuart Morris, both of whom will be retiring within this timeframe. Hudaco does not have a formal policy on the retirement age of its directors.

Board committees

A number of board-appointed committees have been established to assist the board in discharging its responsibilities. The membership and principal functions of the standing committees appear on the ensuing pages. Specific responsibilities have been delegated to the board committees and they operate under written terms of reference approved by the board. Each committee's terms of reference is reviewed annually by the board. Board committees are free to take independent outside professional advice as and when deemed necessary and a formal policy is in place. The group secretary provides secretarial services for the committees, except the remuneration committee and the nomination committee.

Notwithstanding the establishment of various board committees, the board reserves for itself a range of key matters to ensure that it retains proper direction and control of the company.

There is transparency and full disclosure from board committees to the board. The committee chairpersons report formally to the board on its proceedings after each meeting and attend the annual general meeting to respond to any questions from shareholders regarding the committees' areas of responsibility. Directors have full access to all board committee documentation and committee chairpersons provide the board with verbal reports on recent committee activities.

The board is of the opinion that all the board committees have effectively discharged their responsibilities, as contained in their respective terms of reference.

Report of the remuneration committee

Introduction

The members of the committee for the year under review were Stuart Morris and Royden Vice, both being independent non-executive directors. Stuart Morris is currently the chairman of the committee.

The chief executive attends meetings by invitation and is not present during discussions on his own remuneration. The committee meets twice a year, unless additional meetings are required.

The committee operates under a board-approved mandate and terms of reference, which were reviewed in 2016. The committee does not assume the functions of management, which remain the responsibility of the executive directors and other members of senior management.

Role of the committee

The remuneration report is intended to provide an overview and understanding of the group's remuneration policy and practices with specific detail provided for the chief executive, executive and non-executive directors.

The mandate of the committee continues to comprise the following responsibilities:

- oversee the implementation of the remuneration policy of the group;
- annually review and approve the remuneration packages for executive directors and determine and approve annual bonuses, performance-based incentives and share appreciation bonus scheme and share matching scheme awards;
- determine any criteria necessary to measure the performance of executives in discharging their functions and responsibilities;
- recommend fees for non-executive directors (including chairman and committee membership) to the shareholders;
- issue guidelines for general salary increases; and
- review the remuneration report and disclosure of directors' remuneration that appears in the company's integrated report.

Remuneration committee meeting attendance 2016

	Jan	Jun
SG Morris	✓	✓
RT Vice	✓	✓

Group remuneration policy

Hudaco has an integrated approach to remuneration strategy, in which remuneration components are aligned to strategic direction and financial returns.

The board promotes a culture that supports enterprise and innovation with appropriate short- and long-term rewards that are fair and achievable. It seeks to align the interests of the executive directors with those of the shareholders, while not diluting the equity stake of existing shareholders. In this regard its remuneration policy is aimed at encouraging sustainable performance and at providing incentives to achieve employee performance, motivation and retention. Senior management remuneration policy places a significant portion of total remuneration "at risk" whilst not encouraging behaviour contrary to the company's approach to risk management.

The total remuneration mix consists of base salary and benefits (fixed guaranteed remuneration) and short- and long-term incentives. The ratios within the remuneration mix differ depending on seniority levels and responsibilities.

Overview of senior management remuneration

The group's remuneration structure for senior management, including the executive directors, has three elements:

- fixed guaranteed remuneration on a cost-to-company basis;
- short-term performance-related remuneration, based on annual results and the achievement of non-financial objectives; and
- long-term (three to five years) remuneration linked to share price appreciation and therefore long-term earnings performance.

In order to ensure remuneration is market related, all elements of remuneration are subject to regular benchmarking exercises.

The remuneration policy starting point is for fixed guaranteed remuneration to be close to the median of comparable positions as a general guideline. The committee then exercises discretion to place individuals above or below the median.

Generally similar types of benefits are offered to all permanent employees, but defensible differentiation is applied in terms of the size and complexity of the position, the need to attract and retain certain skills and individual performance.

The committee believes that the remuneration policy aligns senior management's interests with those of the stakeholders by promoting and measuring performance that drives long-term sustained shareholder wealth.

At the annual general meeting held on 9 March 2016, shareholders endorsed, through a non-binding advisory vote to ascertain shareholders' views, Hudaco's remuneration policy and its implementation. Discussions with larger shareholders have revealed differing requirements and preferences for measurement criteria and other aspects. It is a challenge to satisfy the disparate preferences but additional performance measures have been introduced over the past two years in an attempt to do so.

Fixed guaranteed remuneration

Benefits within the total cost-to-company fixed remuneration package include a retirement scheme with risk benefits and medical aid cover. Past and expected future performance of each executive is used as a basis for remuneration reviews.

At least every two years the committee engages independent remuneration consultants to benchmark executives' remuneration against an appropriate peer group and to provide input on recent trends. This was done in June 2016 by Khokhela Consulting. No executive receives remuneration outside the band recommended by our consultants.

CORPORATE GOVERNANCE continued

Short-term performance-based remuneration

Short-term performance-related remuneration for the chief executive and the financial director is currently based primarily on the achievement of earnings per share growth and a predetermined return on equity range, which is capped. For 2017 no ROE bonus will be paid if ROE is below 14%. As a stretch target, the cap will be reached at ROE of 24%. The payment for earnings growth is not capped but is subject to partial claw-back.

In total, 25% of the executives' possible performance-related earnings are subject to the achievement of non-financial objectives, determined from year to year.

For senior managers, performance-based remuneration is linked to a combination of the achievement of appropriate returns on operating assets (capped) and annual growth in operating profit (uncapped) in the businesses under their direction. Altogether 15% of senior managers' potential performance-related earnings are subject to the achievement of non-financial objectives, determined annually.

For 2016, in respect of the chief executive up to 152% and the financial director up to 125% of fixed remuneration (if the stretch target is met) is paid as performance-related remuneration in the year in which it is earned. Half of the payment for achieving earnings growth above 15% is paid in the year in which it is earned whilst the other half is carried forward and paid the following year but will be "clawed-back" if certain conditions have not been met. For other senior managers the percentage is up to 80% – otherwise the same rules apply.

Where considered appropriate, the committee may pay discretionary bonuses based on an assessment of personal performance. As a retention strategy executives are required to invest a portion of their bonuses in Hudaco shares. Refer to long-term remuneration below.

At its meeting in January 2017, the committee reviewed the performance of its businesses and executives and approved the payment of bonuses in accordance with the parameters for 2016. It also set the above parameters for the 2017 incentive schemes.

		Achieved – 2016	
Measurement	**Target**	**GR Dunford**	**CV Amoils**
Return on equity	Minimum – 14%		
	Primary – 18%		
	Stretch – 24%	20,5%	20,5%
Increase in ceps	Minimum – 10%		
	Primary – 15%		
	Stretch – uncapped but subject to clawback	0,2%	0,2%
Personal non-financial objectives	25%	22,5%	22,5%

Long-term remuneration

Long-term performance-related remuneration is linked to the appreciation of the Hudaco share price.

In 2006 the group introduced a share appreciation bonus scheme. Share appreciation bonus rights are awarded every year. Participants in the scheme are paid a bonus, settled in Hudaco shares (which Hudaco acquires on the open market for that purpose) and equal to the appreciation in the market value of a pre-determined number of Hudaco shares following each of the third, fourth and fifth years after the award. Participants may elect to defer the right to the bonus for up to four years after vesting. The number of rights awarded to directors and senior managers is based on their level of seniority and fixed guaranteed remuneration. The performance requirement for awards to vest is set by the committee and now comprises two elements:

- Up to 60% is dependent on the achievement of a return on equity of 18% per annum from the date of the award to the vesting date.
- Up to 40% is dependent on the achievement of a cumulative increase in comparable headline earnings per share of CPI plus 3% per annum between the date of the award and the vesting date.

Share appreciation rights are awarded to executive directors, senior managers and the level of employees directly below the senior managers. In 2016, 789 820 share appreciation rights were awarded to a total of 195 people.

In order to serve as a retention strategy, to better align the interests of the executives with those of shareholders and to ensure that the executives have capital at risk in Hudaco, a share matching arrangement was introduced for executives and certain senior managers who are three years or more from retirement. Executives and certain senior managers are required to invest in Hudaco shares a minimum of 12,5% and up to a maximum of 50% of their pre-tax short-term incentive based remuneration. These shares are to be acquired on the open market. Provided the executive or senior manager holds these shares and remains in the employ of Hudaco for three years, the company will match the value of the shares by acquiring an equal number of shares on the open market for the benefit of the executive or senior manager, at the end of three years. The obligation of the company arising from 2016 share matching awards is to acquire 137 832 shares for 12 executives and senior managers in 2019.

No *ex gratia* payment was made to any member of senior management.

Executive directors' remuneration

Details of executive directors' remuneration are set out in note 27.3 to the financial statements.

Hudaco does not have prescribed officers as defined in Regulation 38 of the Companies Regulations, 2011.

Directors' interests in the share appreciation bonus scheme and share matching scheme

Details of the directors' interests can be found in note 27.2 to the financial statements.

Service contracts

Executives are appointed for an unspecified open-ended period subject to Hudaco's standard terms and conditions of employment, which provide for retirement at age 65. For all executives the notice period is at least three months.

No contractual payments are due to any of the executives on termination of employment. If there is a change in control of the company, share appreciation rights vest, but there are no other contractual payments due.

Graham Dunford (chief executive) has a restraint of trade agreement.

Non-executive directors' remuneration

Non-executive directors are appointed to the Hudaco Industries Limited board based on their specific skills and their ability to contribute competence, insight and experience appropriate to assisting the group to achieve its objectives. Non-executive directors are remunerated for their membership of the board of Hudaco and board committees.

The non-executive directors are paid a base fee and are required to forfeit a specific penalty for non-attendance of a meeting. The fees and penalty amounts were approved by the shareholders on 9 March 2016 for the period 1 April 2016 until 31 March 2017.

Non-executive directors do not participate in any of Hudaco's long- or short-term incentive arrangements.

The board recommends the fees payable to the chairman and non-executive directors for approval by the shareholders. Proposals for fees are prepared by management, for consideration by the remuneration and nomination committee and the board. Consideration has been given to the significant responsibility placed on non-executive directors due to the progressively burdensome legal and regulatory requirements and the commensurate risks assumed. Benchmarking information of companies of similar size and complexity are factors considered when reviewing the annual fees. At Hudaco's annual general meeting to be held on 29 March 2017, shareholders will be requested to approve the non-executive directors' fees for the period 1 April 2017 until 31 March 2018 as outlined in the notice of the annual general meeting.

Non-executive directors' fees for the year ended 30 November 2016 are reflected in note 27.3 to the financial statements.

Nomination committee

Introduction

The members for the period under review were Royden Vice (chairman) and Stuart Morris.

The committee functions under written terms of reference and meets at least twice a year, unless otherwise required. It is chaired by the chairman of Hudaco Industries, as required by the JSE Listings Requirements.

Board and committee assessments are conducted annually in the form of written responses and/or a one-on-one interview conducted by the chairman with each member of the board. The chairman's assessment is conducted by the board while the chief executive's assessment is conducted first by the nomination committee and then the board. Issues identified by individual board or committee members will be addressed during 2017.

Role and responsibilities

The committee assists the board in ensuring that:
- the board has the appropriate composition to execute its duties effectively;
- measurable objectives for achieving gender diversity on the board are adopted and that progress made towards achieving those objectives is reported on annually;
- directors are appointed through a formal process;
- induction and ongoing training and development of directors takes place; and
- formal succession plans for the board, chief executive and senior management are in place.

Aspects that are considered with regard to board composition include whether the candidates would enable the company to:
- maintain a mixture of business skills and experience relevant to the company and balance the requirements of transformation, continuity and succession planning; and
- comply with corporate governance requirements in respect of matters such as the balance between executive, non-executive and independent non-executive directors on the board.

The committee also provides assurance to the Hudaco board that the independent non-executive directors offering themselves for election as members of the Hudaco audit and risk management committee, collectively:
- are independent non-executive directors as contemplated in King III and the JSE Listings Requirements;
- are suitably qualified and experienced for audit committee membership;
- have an understanding of integrated reporting (including financial reporting), internal financial controls, external and internal audit processes; risk management, sustainability issues and the governance process (including information technology governance) within the company;
- possess skills which are appropriate to the company's size and circumstances, as well as industry;
- have an understanding of International Financial Reporting Standards and other financial and sustainability reporting standards, regulations and guidelines applicable to the company; and
- adequately keep up to date with the key developments affecting their required skills set.

Nomination committee meeting attendance 2016

	Jan	Jun
RT Vice	✓	✓
SG Morris	✓	✓

Report of the audit and risk management committee

Introduction

The members of the committee during the 2016 financial year were Daisy Naidoo (chairman), Nyami Mandindi and Stuart Morris. Daisy Naidoo took over as chairman from Stuart Morris at the AGM held on 9 March 2016.

The audit and risk management committee comprises independent non-executive directors only, as required by the Companies Act. All the members have the requisite financial and/or commercial skills and experience to contribute to the committee's deliberations.

Meetings are held at least three times a year and the chairman of the board, the chief executive, financial director, the head of internal audit and representatives from the external auditors attend committee meetings by invitation. The committee functions under written terms of reference which were most recently reviewed in March 2016.

Role and responsibilities

From an audit oversight perspective, the committee is primarily responsible for:

- considering and monitoring the independence of the external auditors and the appropriate rotation of the lead audit partner and to make recommendations to the board on the appointment and dismissal of the external auditor;
- overseeing the effectiveness of the group's internal control systems, ensuring that they are designed in response to identified key business and control risks, and have been effective throughout the year;
- reviewing the scope and effectiveness of the external and internal audit functions;
- ensuring that adequate books and records have been maintained;
- monitoring proposed changes in accounting policy;
- considering the accounting and taxation implications of major transactions;
- reviewing and reporting on compliance with IFRS, King III and the JSE Listings Requirements;
- testing that the group's going-concern assertion remains appropriate;
- reviewing the interim and annual financial statements to ensure that they give fair presentation consistent with information known to the committee, before submission to the board;
- considering the appropriateness of the expertise and experience of the financial director on an annual basis;
- evaluating the independence of the internal audit function; and
- evaluating the activities and the effectiveness of the internal audit function.

The Companies Act imposes further duties and responsibilities upon the committee including the following:

- nominate for appointment a registered auditor who is independent of the company;
- determine the fees to be paid to the auditor and the auditor's terms of engagement;
- ensure that the appointment of the auditor complies with the Companies Act and any other legislation relating to the appointment of auditors;
- determine the nature and extent of any non-audit services which the auditor may provide to the company;
- pre-approve any contract with the auditor for the provision of non-audit services to the company;
- prepare a report, to be included in the annual financial statements for that year:
  - describing how the committee carried out its functions;
  - stating whether the committee was satisfied that the auditor was independent of the company; and
  - commenting in any way the committee considers appropriate on the financial statements, the accounting practices and the internal financial control of the company; and
- receive and deal appropriately with any complaints relating to the accounting practices and internal audit of the company, the content or auditing of the financial statements, the internal financial controls of the company or any other related matter.

In response to these requirements and its terms of reference, the committee reports that it has discharged all of its obligations. Specifically:

- It nominated the audit firm Grant Thornton and audit partner Vanessa de Villiers for appointment by the shareholders at the forthcoming annual general meeting as the auditor for the 2017 financial year. The committee is satisfied that the firm and the individual auditor are independent of the company and are accredited as auditors on the JSE's Register of Auditors.
- Budgeted audit fees for the financial year ended 30 November 2016 were approved and the scope of the proposed audit work was agreed.
- Any non-audit-related services to be performed by the external auditors require the approval of the audit committee on a case-by-case basis. The overarching criterion for approval being that the independence of the external auditors should not be impaired through the provision of services under consideration. It was agreed that there will be a rebuttable presumption that non-audit fees totalling up to 25% of the budgeted annual audit fees will not alone impair the independence of the auditors.
- The committee confirmed the independence of the internal audit function and satisfied itself that internal audit is functioning effectively.
- The internal and external auditors have unrestricted access to this committee. Members of the committee are also afforded the opportunity to meet with the head of internal audit and the external auditors without management being present.
- The committee reviewed the interim and annual financial statements and approved them for submission to the board. This review included a consideration of the estimates, judgements and assumptions set out in note 2 to the financial statements.
- No complaints have been received relating to the accounting practices and internal audit of the company or to the content or auditing of the company's financial statements or its internal financial controls, or to any related matter.

- In terms of paragraph 3.84(h) of the JSE Listings Requirements, the committee has satisfied itself that the expertise and experience of the financial director are appropriate.

The committee further ensures that a combined assurance model is applied to provide a co-ordinated approach to all assurance activities. Through formal reports in committee papers and the attendance of all key executives involved with assurance, the committee is provided with a thorough review of the group's assurance activities. These reports include the principles of combined assurance through reports from management, internal and external audit. Attendees at committee meetings include the chairman of the company, both executive directors, the head of internal audit and external audit representatives.

From a risk management perspective, the committee's main responsibilities include overseeing the group's risk management programme. The responsibility for identifying, evaluating and managing risk resides with management. The risk management process involves a formalised system to identify and assess risk, both at strategic and operational levels. The process includes the evaluation of the mitigating controls and other assurances in identifying and assessing the risks.

Risks are continually being identified and mitigated in terms of a process that involves allocating responsibility, developing action plans and monitoring compliance with these action plans. Every employee has a role to play in this endeavour and in achieving the group's goals and objectives.

During the year under review the committee discharged all of its duties in respect of risk management. Specifically it:

- ensured that appropriate systems were in place to identify and monitor risks affecting the group;
- evaluated the adequacy of the effectiveness of the risk management process;
- reviewed and assessed issues such as compliance with legislation and corporate governance matters, the impact that significant litigation could have on the group, the adequacy of the insurance cover as well as the effectiveness of controls over areas of risks;
- provided board level oversight of the management of sustainability issues; and
- ensured that IT governance and risk management continued to form an integral part of the company's risk management processes.

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The key risks faced by the group are described on pages 16 and 17 of this integrated report.

Audit and risk management committee meeting attendance 2016

	Jan	Jun	Oct
D Naidoo	✓	✓	✓
N Mandindi	✓	✓	✓
SG Morris	✓	✓	✓

Financial control and risk management

The board recognises its responsibility to report a balanced and accurate assessment of the group's financial results and financial position in terms of International Financial Reporting Standards, its business, operations and prospects.

Hudaco has an established system of controls and procedures to ensure the accuracy and integrity of the accounting records and to effectively monitor the group's businesses and their performance. The system encompasses a wide range of checks and balances, as well as interactive controls. These include:

- decentralised and self-accounting operational and financial management;
- an approval framework with defined authority limits;
- a detailed budgeting system;
- the preparation of forecasts, which are regularly reviewed and updated;
- monthly reporting of income and financial position together with written reports highlighting areas of particular risk or opportunity;
- a centralised treasury, which incorporates foreign currency and cash management functions;
- regular reporting on treasury, legal, pension, medical aid and insurance matters;
- regular meetings of the boards of the individual operating businesses; and
- risk registers at operating and group level, which are monitored on a regular basis.

Internal control framework

Hudaco has adopted specific levels of authority and the required approvals necessary for all major decisions at both group and divisional levels. Through this framework, operational and financial responsibility is formally and clearly delegated to the chief executive, the group financial director and the executives of the principal operating businesses. This is designed to maintain an appropriate control environment within the constraints of board-approved strategies and budgets, while providing the necessary local autonomy for day-to-day operations.

Internal audit

A group risk and internal audit department, which functions under a written charter, provides the role and functions as envisaged in the Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors. The department's work is designed to ensure that all aspects of each business, including internal control procedures, are subject to professional risk assessment on a continuous basis. These controls and procedures provide reasonable assurance that assets are safeguarded from material loss or unauthorised use and that the financial records may be relied on for preparing the financial statements and maintaining accountability for assets and liabilities.

This department, headed by Tariro Mutizwa (CA (SA), CA (Z), CIA), has complied with its brief, which is to conduct a formal review of the effectiveness of all the group's systems of internal control over a three-year cycle, with major systems in all businesses reviewed annually.

CORPORATE GOVERNANCE continued

The department reports any material findings and matters of significance to the audit and risk management committee on a regular basis. The reports highlight whether actual or potential risks to businesses are being appropriately managed and controlled. Progress in addressing previously unsatisfactory findings is monitored until proper resolution of the problem area has been reported.

The annual audit plan, which is pre-approved by the audit and risk management committee, is determined through an assessment and understanding of risks.

The scope of the internal audit and external audit are co-ordinated in order to provide efficient and effective assurance to the group's audit and risk management committee.

Risk

The board assesses the risks in the group's business environment with a view to eliminating or reducing them in the context of the group's strategies, operations and risk appetite. The board has confirmed its acceptance of the group's risk management processes and is satisfied that all risks are appropriately governed. The key risks faced by the group are described on pages 16 and 17 of this integrated report. The group's annual internal audit plan incorporates the outcomes of the risk management process. The group risk and internal audit department provides a risk identification facilitation role. Management is responsible for managing risks on a daily and operational basis. The board is responsible for determining the group's appetite and risk levels. The group risk map, examined by the board at each meeting, includes a risk tolerance line to highlight whether any residual risks fall beyond the risk tolerance level.

16, 17

Litigation and legal

In the normal course of business, Hudaco is subject to various proceedings, actions and claims. These matters are subject to risks and uncertainties that cannot be reliably predicted.

During 2015, Hudaco instituted legal proceedings against Bravura Equity Services Proprietary Limited, Cadiz Specialised Asset Management Proprietary Limited and certain other entities within the Bravura and Cadiz groups as well as executives of the Bravura group and certain former executives of the Cadiz group. These legal proceedings are aimed at recovering alleged secret profits of R180 million and the payment made by Hudaco to SARS in the amount of R312 million, in settlement of a challenge under the general anti-avoidance rule, and pertaining to the financing arrangements for Hudaco's empowerment transaction. The grounds for the action include intentional misrepresentation and/or negligence. The matter is continuing slowly.

Ernest Lowe became aware that some of its employees may have been involved in a transgression of the Competition Commission Act in respect of a minor portion of its business. It drew the matter to the attention of the Competition Commission, submitted a leniency application and co-operated fully with the Competition Commission in its investigation. Ernest Lowe was granted conditional immunity based on the leniency application. A hearing in this regard has been set down for 21 to 23 June 2017 and once this has been finalised it is expected that Ernest Lowe would be granted final immunity. Procedures have been implemented to prevent a recurrence and all businesses in the group have been advised to ensure the same problem does not arise.

Information technology

Protecting electronic assets is increasingly complex as networks, systems and electronic data expand. Depending on the internet for communication attracts additional risk. Ensuring proper system security, data integrity and business continuity is the responsibility of the board, but is overseen by the executive committee and the audit and risk management committee. IT systems at Hudaco are decentralised with each business determining the most appropriate system for its own operations. This reduces the group's exposure to any IT system failure.

The board is of the opinion that the systems of internal control over information technology are adequate and effective and is not aware of any material breakdown in the functioning of the internal control systems during the year.

An IT governance committee, which is chaired by the group financial director, has an IT professional from outside the group and includes representatives from the IT departments of all but the smaller businesses in the group, assists the board in ensuring the effective and efficient management of IT resources to facilitate the achievement of Hudaco's objectives. The IT governance committee functions under a written IT governance charter. Its purpose is to define and deliver the overall IT strategy approved by the group's executive committee and the audit and risk management committee. It is responsible for the development and functionality of IT governance at businesses, IT strategy at functional level, monitoring compliance and measuring progress against plans. Through the delivery of the IT goals, the IT governance committee is responsible for the primary focus areas of IT governance at Hudaco:

- value for money in operational IT spend;
- effective selection and control of IT capital projects;
- recovery from business interruption;
- security of information;
- physical security of IT assets;
- risk from intellectual property infringement (unauthorised or under-licensed software);
- risk from failure to keep the Hudaco IT systems up to date; and
- appropriate standardisation.

The nature of Hudaco's business has intrinsic key risk mitigation characteristics in that:

- the decentralised structure means that the risk is spread over about 30 different systems. A failure in any one system could be material but would not threaten the entire group. The other side of the coin is that it introduces other risks, such as multiple places where threats could be introduced, but these risks can be, and are being managed;
- Hudaco's businesses generally do not require custom written software and use off the shelf packages, which means the risks involved in software development are not present. These risks include major cost overruns, software loss without adequate up-to-date versions available for restoration and loss of key skills. To the extent that customisation is done for the group, it is report writing and data mining;
- Hudaco generally does not embark on very expensive IT projects, which contain the risk of fraud and/or mismanagement; and
- overall IT spend is not very high considering the size of the group.

Executive committee

Introduction

The members of the committee are: Graham Dunford (chairman), David Allman, Clifford Amoils, Brian Constançon, Barry Fieldgate, Jonny Masinga and Reana van Zyl. Jack Edery retired with effect from 30 November 2016 and Ossie Carstens left on 31 December 2016. The head of internal audit has a standing invitation to attend the meetings and other senior managers attend from time to time by invitation.

The executive committee is chaired by the chief executive, Graham Dunford, and meets quarterly, prior to the board meeting. Its principal terms of reference are to advise the chief executive on the formulation of operating policy, the implementation of group strategy and the management of key group risks. The committee incorporates a safety, health and environment subcommittee which has its own written terms of reference.

Executive committee meeting attendance 2016

	Jan	Mar	Jun	Oct
GR Dunford	✓	✓	✓	✓
DL Allman	✓	✓	✓	✓
CV Amoils	✓	✓	✓	✓
JO Carstens	✓	✓	✓	✓
BJM Constançon	✓	✓	✓	✓
J Edery	✓	✓	✓	✓
BWJ Fieldgate	✓	✓	✓	✓
KJ Masinga	✓	✓	✓	✓
R van Zyl	✓	✓	✓	✓

Report of the social and ethics committee

Introduction

The members of the committee during the 2016 financial year were Nyami Mandindi (chairman), Clifford Amoils, Brian Constançon and Daisy Naidoo. Nyami Mandindi took over as chairman from Daisy Naidoo on 9 March 2016.

The chairman of the committee is an independent non-executive director, while the other three members are respectively an executive director, another executive committee member and an independent non-executive director. The committee meets twice a year and reports to the board. Meetings have also been attended by the Hudaco group secretary, transformation and human resources executive and the executives responsible for health and safety and environmental issues. Furthermore, the committee is entitled to invite other executives and senior managers of Hudaco to attend meetings as required in order to fulfil its mandate.

Role and responsibilities

Hudaco's social and ethics committee monitors and oversees Hudaco's activities in relation to:

- social and economic development, including the principles of the UN Global Compact, broad-based black economic empowerment, employment equity and the OECD's recommendations on corruption;
- good corporate citizenship, including the promotion of equality, prevention of unfair discrimination, corporate social responsibility, ethical behaviour and managing environmental impacts;
- consumer relations; and
- labour and employment, including skills development.

Each business within the Hudaco group has its own social and ethics subcommittee. They are required to meet twice a year prior to the main committee meeting and provide feedback and input on social and ethics activities.

During the 2016 financial year the committee met twice, at which meetings performance in the following areas was reviewed on a rotational or core agenda basis, in response to the requirements of the Companies Act:

- anti-corruption compliance;
- human capital management;
- transformation;
- regulatory and compliance matters;
- stakeholder relations;
- socio-economic development; and
- environmental impact.

The committee confirms that no material issues were identified during this review. At the forthcoming annual general meeting, scheduled to take place on 29 March 2017, the chairman will be available to report to shareholders on the matters within its mandate, in accordance with regulation 43(5)(c) of the Companies Act.

Social and ethics committee meeting attendance 2016

	Mar	Oct
N Mandindi	✓	✓
CV Amoils	✓	✓
BJM Constançon	✓	✓
D Naidoo	✓	✓

Group secretary

The group secretary, who is subject to a "fit and proper" test, assists the board in fulfilling its functions and is empowered by the board to perform her duties. The group secretary, directly or indirectly:

- assists the chairman, chief executive and financial director with the induction of new directors;
- assists the board with director orientation, development and education;
- where practical ensures the group complies with legislation applicable and/or relevant to Hudaco;
- monitors the legal and regulatory environment and communicates new legislation and any changes to existing legislation to the board and the operating businesses; and
- provides the board with a central source of guidance and assistance.

The group secretary also assists the chairman and chief executive in determining the annual board plan and board agendas and in formulating governance and board-related matters.

In October 2016 the board considered and was satisfied with the competence, qualifications and experience of the group secretary, Reana van Zyl. They concluded that an arm's length relationship had been maintained between the board members and the group secretary as required by the JSE Listings Requirements. This conclusion was based on the fact that she performs her role independently from the board or any individual board member and without the directors having an undue influence over her.

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The certificate required to be signed by the group secretary in terms of section 88(2)(e) of the Companies Act appears in the annual financial statements on page 67.

Share dealings

Hudaco has adopted a closed-period policy, which precludes directors, officers, participants and staff who may have access to price-sensitive information from dealing in Hudaco shares prior to the release of interim and final results as well as during other price-sensitive periods.

All the directors, the members of the executive committee and their personal assistants are required to obtain written clearance from the chief executive before dealing in Hudaco's securities. The chief executive and financial director require prior clearance from the chairman.

Details of share dealings by directors and the group secretary are disclosed through the Securities Exchange News Service (SENS).

The group secretary maintains a record of all dealings in Hudaco shares by directors and affected employees.

The major subsidiaries do not have any directors who are not also directors of Hudaco.

Relationship with stakeholders

14, 15

Hudaco's relationship with stakeholders is dealt with in the section on stakeholder engagement on pages 14 and 15.

The Hudaco group has various policies governing communication, relationships and conduct with its stakeholders, which comprise shareholders, employees, customers, suppliers, bankers, the community and government.

Nedbank Corporate and Investment Banking acted as the company's sponsor during the year under review.

Hudaco acknowledges the importance of its shareholders attending the company's annual general meetings as these meetings offer an opportunity for the shareholders to participate in discussions relating to general meeting agenda items and to raise additional issues. Explanatory notes setting out the effects of all proposed resolutions have been included in the notice of annual general meeting. The company's transfer secretaries attend every meeting of shareholders to assist with the recording of shareholders' attendance and to tally the votes.

The chairmen of board appointed committees, as well as the executive directors, are required to attend annual general meetings or other general meetings to respond to questions from shareholders.

Notwithstanding the requirement by King III that the company should engage in transparent and effective communication with its stakeholders, shareholders are allowed to vote anonymously by proxy which makes it impossible for Hudaco to engage with a particular shareholder with a view to understanding the reasons for a negative/abstaining vote or to explain why the particular resolution is required. In some instances it also inhibits management's ability to review existing group policies to bring them in line with shareholder expectations.

During the period under review, Hudaco did not make any donations to political parties.

King III gap analysis

As required by the JSE Listings Requirements, the following table discloses the status of Hudaco's compliance with King III and reasons for non-compliance, if applicable.

	Comply
Ethical leadership and corporate citizenship	
Effective leadership based on an effective ethical foundation	✓
Responsible corporate citizen	✓
Effective management of ethics	✓
Assurance statement on ethics in the integrated report	✓
Board and directors	
The board is the focal point for and custodian of corporate governance	✓
Strategy, risk, performance and sustainability are inseparable	✓
Directors act in the best interest of the company	✓
The chairman of the board is an independent non-executive director	✓
A framework for the delegation of authority has been established. The board comprises a balance of power, with a majority of non-executive directors who are independent	✓
Directors are appointed through a formal process	✓
Formal induction and ongoing training of directors are conducted	✓
The board is assisted by a competent, suitably qualified and experienced company secretary	✓
Annual performance evaluations of the board, its committees and individual members	✓
Appointment of well-structured committees	✓
An agreed governance framework between the group and its subsidiary boards is in place	✓
Directors and executives are fairly and responsibly remunerated	✓
Remuneration of directors and prescribed officers is disclosed	✓
The company's remuneration policy is approved by the shareholders	✓
Audit committee	
Effective and independent	✓
Suitably skilled and experienced independent non-executive directors	✓
Chaired by an independent non-executive director	✓
Oversees integrated reporting	✓
A combined assurance model is applied to improve efficiency in assurance activities	✓
Satisfies itself of the expertise, resources and experience of the company's finance function	✓
Oversees internal audit	✓
Integral to the risk management process	✓
Oversees the external audit process	✓
Reports to the board and shareholders on how it has discharged its duties	✓
Governance of risk	
The board is responsible for the governance of risk	✓
The board determines the levels of risk tolerance	✓
The audit and risk management committee assists the board in carrying out its risk responsibilities	✓
The board has delegated the process of risk management to management. The board ensures that risk assessments are performed on a continual basis. Frameworks and methodologies are implemented to increase the probability of anticipating unpredictable risks	✓
The board ensures that management implements appropriate risk responses	✓
The board receives assurance regarding the effectiveness of the risk management process	✓

	Comply
Sufficient risk disclosure to stakeholders	✓
Governance of information technology	
The board is responsible for the governance of information technology (IT)	✓
IT is aligned with the performance and sustainability objectives of the company	✓
Management is responsible for the implementation of an IT governance framework	✓
The board monitors and evaluates significant IT investments and expenditure	✓
IT is an integral part of the company's risk management. IT assets are managed effectively	✓
The audit and risk management committee assists the board in carrying out its IT responsibilities	✓
Compliance with laws, rules, codes and standards	
The board ensures that the company complies with applicable laws and considers adherence to non-binding rules, codes and standards	✓
The board and each individual director and senior manager has a working understanding of the effect of laws, rules, codes and standards applicable to the company and its business	✓
Compliance risk forms an integral part of the company's risk management process	✓
The implementation of an effective compliance framework and process has been delegated to management	✓
Internal audit	
The board ensures that there is an effective risk-based internal audit	✓
Internal audit follows a risk-based approach to its plan	✓
Internal audit provides a written assessment of the effectiveness of the company's system of internal controls and risk management	✓
The audit committee is responsible for overseeing internal audit	✓
Internal audit should be strategically positioned to achieve its objectives	✓
Governing stakeholder relationships	
The board appreciates that stakeholders' perceptions affect the company's reputation	✓
Management proactively deals with stakeholder relationships	✓
There is an appropriate balance between its various stakeholder groupings	✓
Equitable treatment of shareholders	✓
Transparent and effective communication with stakeholders	✓
Disputes are resolved effectively, efficiently and as expeditiously as possible	✓
Integrated reporting and disclosure	
The board ensures the integrity of the company's integrated report	✓
Sustainability reporting and disclosure should be integrated with the company's financial reporting	✓
Sustainability reporting and disclosure should be independently assured	1

[1] *The entire integrated report is reviewed by the audit and risk management committee and recommended to the board. The board has not found it necessary to obtain independent assurance for sustainability reporting as it is comfortable with the accuracy of the sustainability reporting. Environmental issues are not material in the group.*

REVIEW OF OPERATIONS

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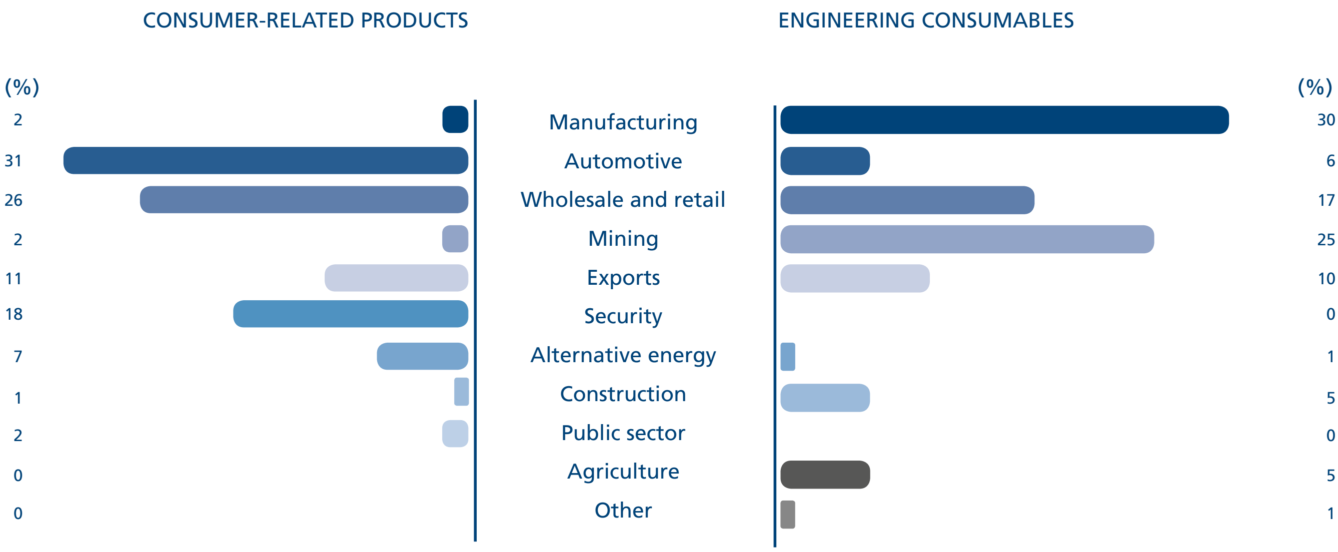
We hold distribution rights mainly on an exclusive basis for excellent product brands. These rights usually cover Africa south of the equator. Our most important group objective is to optimise growth within our existing portfolio of businesses through improving their geographic spread, expanding their product offering and increasing market share. Growth is augmented by the acquisition of additional agencies, mainly through business acquisitions.

As Hudaco is principally an importer, the main determinant of prices is exchange rates. The strengthening and volatility in the Rand rate of exchange (by 3% against the US Dollar) in 2016 (following a weakening of 30% in 2015) and by 19% against Hudaco's basket of currencies made both getting pricing and maintaining gross margin very difficult. The full impact of any significant movement in the Rand on prices generally takes about six months to be fully effective.

SALES BY MARKET SECTOR – 2016



Consumer-related products

The main business of this segment is the distribution and supply of products to intermediates (retailers or installers) for ultimate use by consumers or in applications driven by consumer spending. Activity in light construction (houses and commercial premises) also impacts demand, particularly for security and Wi-Fi products and power tools.

This segment comprises the following main businesses and activities:

- Partquip distributes automotive spares and accessories, wheels and Ironman 4X4 accessories.
- Rutherford distributes Makita industrial power tools, Mercury marine engines, survey equipment and nuclear gauges.
- Elvey Security Technologies distributes intruder detection, access control and related CCTV equipment.
- Pentagon supplies and installs sophisticated CCTV systems, offering system design, integration into access control, intruder, fire detection systems and video over IP.
- Global Communications is a designer of integrated analogue and digital telecommunications infrastructure and a distributor of Kenwood telecommunication and radio equipment.
- MiRO is a distributor of wireless networking, VoIP and video equipment.
- Abes Technoseal distributes light and heavy duty clutches, ignition leads and oil seals.
- Deltec and Specialised Battery Systems distribute automotive, stand-by and solar battery systems.
- FTS/All-Trade (managed within Rutherford) is the largest distributor of rivets in South Africa.
- SS Telecoms, acquired with effect from 1 December 2016, is a voice and data solution provider specialising in PBX, communication management software, voice recording, handsets, telephone management and mobile technology solutions. It also manufactures specialised products for fleet management and voice routing.
- Commercial ICT, also acquired with effect from 1 December 2016, is a small core IT systems and infrastructure provider, with exclusive agencies for communication products sold to, *inter alia*, the security industry.

Refer to page 47 for a geographic analysis of the source of supply of the consumer-related products range.

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Performance

In 2016 the consumer-related products segment contributed 51% (2015: 50%) of group turnover and 61% (2015: 59%) of group operating profit. Turnover grew by 7,6% to R2,8 billion whilst operating profit grew 6,5% to R405 million.

Businesses in this segment supply products which either wear out and need to be replaced in reasonably predictable timeframes, or require upgrading as technology with additional features is introduced. Usage, except for the Global Communications product range, is generally more dependent on economic activity (GDP) than fixed investment (GDFI). This tends to make the earnings of this segment, as with the engineering consumables segment, less cyclical than businesses solely dependent on investment spending.

Partquip

The Partquip group is our biggest business and delivered a pleasing set of results in its second year within the group. It distributes to resellers in the automotive aftermarket and is made up of three divisions:

- Partquip, which distributes various vehicle parts including suspension, bearings and mountings components;
- A-Line, which distributes wheels, both alloy and steel, together with the required accessories; and
- Ironman 4X4, which is a 50% joint venture with Ironman 4X4 International of Australia and which distributes tough and reliable suspension systems and accessories for 4X4 vehicles, primarily for the recreation market but also some to the original equipment market.

We see the automotive aftermarket growing strongly in the years ahead as the national vehicle pool grows. The demand for competitively priced quality products will increase and Partquip will grow with the demand.

PRINCIPAL BRANDS: PARTQUIP

	Select range of quality guaranteed automotive components.	Own brand since 1984
	Select range of alloy and steel wheels.	Own brand since 1999
	4-Wheel drive suspension, accessories and camping equipment.	Sole distributor since 2005

Rutherford

Rutherford represents Makita Japan, which produces high quality (and hence high cost) industrial power tools and garden equipment designed for everyday use and used mainly by manufacturing or installation businesses and is a market leader in lithium ion battery technology.

It had a difficult year in which Makita changed the branding of product lines in its second tier industrial Maktec range to Makita MT. The launch of the new range was delayed until the backlog at the National Regulator for Compulsory Specifications to get authority to launch the new products has been cleared. In the long term, the rebranding should be very positive for the position of Makita in the second tier of the industrial power tool sector to supplement its leading position in the top end industrial power tool market but for 2016 there was an extended period during which we were not able to participate in that part of the market at all. Notwithstanding a decrease in turnover and profits, it still generated an excellent return.

Rutherford Marine, which represents the Mercury brand, was at a disadvantage during the year under review due to a strong US Dollar exchange rate, primarily because Mercury's main competitors source in Yen. Towards the end of the year however the US Dollar weakened against the Rand which will make the Mercury brand more competitive in 2017. Rutherford Marine now also has better representation in the coastal regions, which comprise 75% of the marine market.

Sales of survey equipment were slightly down on prior year with the construction and mining sectors still being under significant pressure.

After the acquisition of All-Trade, FTS is now the largest distributor of rivets in South Africa. It also carries a range of fasteners.

PRINCIPAL BRANDS: RUTHERFORD

	Japanese designed industrial power tools.	Distributor since 1968 Sole distributor since 1985
	Outboard motors from USA.	Sole distributor since 1986
	Petrol inboards and sterndrives from USA.	Sole distributor since 1986
	Global positioning systems and survey instrumentation from Japan and USA.	Sole distributor since 1969
	Nuclear gauges used for compaction control of soil, concrete, asphalt and aggregate from USA.	Sole distributor since 1974

Elvey Security Technologies and Pentagon

Elvey performed satisfactorily in the midst of a sluggish economy, weak consumer confidence and deepening price competition between local manufacturers and importers. Sales grew largely on the back of a fairly robust projects market, in which Elvey is increasing its market share. Growth in the traditional residential market was hard to come by, owing to generally weak consumer spending and the levels of saturation in that market which put pressure on margins. Operating costs were however extremely well-controlled across the business, ultimately contributing towards a strong increase in operating profits.

Elvey's focus will remain on innovation and reinforcing its value-add to its target market, whilst continuing to drive growth across other key product categories and principal brands. For example, Elvey has recently acquired Commercial ICT, a core IT systems and infrastructure provider, with a view to boosting its capability to provide network/cloud-based security services together with its key products.

Pentagon, our integrated systems design and supply business, delivered a better performance in a rejuvenated projects market. Pentagon continued to focus on the more profitable segments of the market, where customers require high quality product and superior service. This, along with some strategic buying, resulted in a dramatic improvement in Pentagon's gross profit margin, which was the main driver behind its increase in operating profits. The challenge is always to maintain this level of performance in this characteristically inconsistent market segment. Pentagon's project pipeline for the year ahead looks promising at this stage.

Both Elvey and Pentagon experienced difficult trading conditions in Africa, constrained by volatile political climates, capital restrictions and direct-supply arrangements between customers and manufacturers. However, pockets of opportunity still exist for foreign businesses, if approached correctly. In this vein, Elvey and Pentagon will in future approach this market as a single business, with a blended offering and service levels that will be difficult for either suppliers or competitors to match.

Elvey and Pentagon also seek to harness synergies with MiRO, as the trend towards IP convergence gathers pace in our market.

PRINCIPAL BRANDS: ELVEY SECURITY TECHNOLOGIES AND PENTAGON

RISCO	Israeli producers of high quality and reliable security products.	Sole distributor since 2014
Networx	USA manufacturer of intrusion control panels and equipment.	Distributor since 1987
DSC	Canadian manufacturer of intrusion detection products.	Distributor since 1990
OPTEX	Japanese intrusion detection devices.	Distributor since 1987
Impro	South African manufacturer of access control systems.	Distributor since 2011
CEM Systems	Innovative and unique range of access control products manufactured in Ireland.	Distributor since 2010
Vision Line	Range of locally and internationally sourced security accessories and CCTV products.	Sole distributor since 1994
alhua	Global video surveillance products from China.	Distributor since 2011

Global Communications

Global Communications had a disappointing year in that it was unable to secure any major equipment supply contracts in the year under review. The specialised systems integration part of the business continues to take advantage of the migration from analogue to digital communication throughout Africa but 60% of sales are still of analogue equipment. The volatile, strengthening Rand made pricing very difficult and put pressure on margins. Global is carrying over a healthier order book into the new year than it did a year ago and has seen an improvement in the mining and export markets.

PRINCIPAL BRANDS: GLOBAL COMMUNICATIONS

KENWOOD	PMR equipment and radio networks.	Sole distributor for southern Africa since 1987
JVC	CCTV cameras and video systems.	Distributor since 2009
BARRETT Tactical Communications	HF and VHF tactical communication equipment.	Distributor since 2010

MiRO

MiRO is a distributor of IP Convergence solutions. MiRO's products range from Ethernet networking products (such as CAT5 cable, server racks and switches & routers), voice over IP products (such as IP PBX, video conferencing and telephones) to IP security products (such as IP cameras, network video recorders, access control and biometrics). MiRO is a specialist wireless distributor with years of experience to provide the best solutions for all IP wireless solutions from indoor, outdoor and managed Wi-Fi, to fixed wireless broadband systems and microwave and licensed spectrum backhaul.

MiRO was acquired in May 2016 and delivered excellent results. This was partly because it immediately leveraged off Hudaco's ability to provide adequate finance, thereby enabling it to ensure constant product availability.

MiRO supplies equipment to the burgeoning wireless ISP and Internet Telephony Service Provider industries which are showing real growth fueled by the ever-expanding demand for affordable broadband. The inability of the incumbent operators such as Telkom to deliver connectivity in rural areas and their constant struggle with poor service and high prices creates the perfect environment for private licence holders to step in and provide these services. MiRO also supplies networking equipment to integrators and IT support companies to install and maintain networks for corporate South Africa. MiRO's security products find their way to security integrators and IT companies alike.

More than 60% of Internet traffic reaches the consumer over Wi-Fi and MiRO supplies solutions to build Wi-Fi networking systems, from a single house to a hotspot in a coffee shop or hotel to large scale Wi-Fi in buildings, stadiums or even cities.

As broadband internet reaches more and more people in Africa, it is driving the second market for Wi-Fi access. There is a fast-growing market in sub-Saharan Africa, with many of these new service providers looking at South Africa for skills and products.

PRINCIPAL BRANDS: MiRO		
UBIQUITI	Wireless data communication products from America.	Distributor since 2008
MikroTik	Wireless products and routers from Latvia.	Distributor since 2006
Cambium Networks	Wireless broadband solutions from the US.	Master distributor since 2016

Abes Technoseal

Abes Technoseal produced pleasing results for the 2016 financial year. Light duty clutch kit sales grew on the previous year while heavy duty clutch kit sales volumes were flat after a sizeable increase in 2015. We continue to grow the heavy duty range and offering to our customers. The BougiCord division's strategy of re-sourcing competitively priced components is showing good results. The seals division had a good year in both the industrial and automotive market segments.

PRINCIPAL BRANDS: ABES TECHNOSEAL		
Valeo	Light duty clutch kits from France.	Exclusive distributor since 2005
PHC Valeo	Clutch kits from Korea.	Exclusive distributor since 1994
Freudenberg Sealing Technologies	Oil seals from Germany.	Preferred distributor since 1950
BougiCord	Ignition cables from France.	Exclusive distributor since 2007
EXEDY	Clutch kits from Japan.	Sole distributor since 2014

Deltec and Specialised Battery Systems (SBS)

Our battery businesses were well down on last year's fantastic sales arising from the load shedding windfall. However, there has been growth comparing 2016 with 2014, so normal business in our alternative energy sector is growing.

Deltec performed poorly this year and we have intervened to get it back on track. We believe we will see a better result in 2017. SBS had a good year and maintains a significant presence in the stand-by battery market.

PRINCIPAL BRANDS: DELTEC AND SBS		
VARTA	World's leading brand in sealed automotive batteries.	Sole distributor since 2007
CSB	Back-up power in UPS, telecoms security etc.	Sole distributor since 2000
ROYAL	Back-up power (UPS), engine start and solar systems.	Sole distributor since 2000
SBS SOLAR	Custom solar systems using the SBS Solar products.	Sole distributor since 2009

Outlook for the consumer-related products segment

The major macro-economic factors affecting the performance of the consumer-related products segment are:

- consumer spending;
- light construction activity;
- vehicle sales;
- broadband, Wi-Fi and VoIP expansion;
- employment levels; and
- Rand strength or weakness.

Because most sales are to resellers or installers, we do not know accurately the final use of our product range and therefore it is hard to say which sector drives growth in any particular year. For example when we sell intruder detection equipment to installers we do not know whether it is for residential or commercial use, for new developments or for upgrades to existing systems. We therefore look at general trends, such as consumer spending and GDP growth, to indicate the outlook for this segment.

Trading conditions in this segment are expected to be challenging in 2017. We are, however, optimistic about its prospects as we had an excellent second half, the momentum of which we foresee will carry over into this year. We are optimistic about the MiRO acquisition and the growth potential it has. Coupled with the synergies in product range and offering between Elvey, Global, SST and Commercial ICT, these businesses should have a good 2017. The launch of the new MT series of Makita products in Rutherford and general consumer spending will continue to support power tool, automotive aftermarket and alternative power generation sales, markets important to Hudaco.

CONSUMER-RELATED PRODUCTS

SOURCE OF PRODUCTS

	(%)
China	36
Asia – other	13
Europe – other	11
South Africa	9
North America	9
United Kingdom	7
Singapore	7
Taiwan	4
Other	4

Engineering consumables

The primary business of this segment is the supply of replacement parts for industrial machinery used in the mining and manufacturing sectors. This segment has mostly been affected by the decline in the mining, manufacturing, steel and agriculture sectors. So whilst turnover was slightly up and profit down, there was a sharp increase in business activity in the second half of the year.

This segment comprises the following main businesses and activities:

- Bearings International has over 40 branches across southern Africa. The main bearing brands distributed are FAG and KOYO. It also distributes chain, seals, geared motors, electric motors and transmission products.
- Deutz Dieselpower represents Deutz AG – one of the world's leading independent manufacturers of air-cooled and liquid cooled medium-sized compact diesel engines.
- Filter and Hose Solutions (FHS) is a leading distributor of Donaldson filters and filtration solutions, kits and accessories for heavy duty and automotive applications.
- Mechanical Power Transmission comprises hydraulics and pneumatics (HERS, Dosco, GPM, Ernest Lowe and Berntel), specialised steels (Ambro Steel and Sanderson Special Steels), pipes, fittings and hose (Astore Keymak), belting (Belting Supply Services and Brewtech), pulleys (Bosworth), castings (Joseph Grieveson) and geared motors (Bauer).
- Electrical Power Transmission products, constituted by: Ampco, Powermite, Three-D Agencies, Proof Engineering and Varispeed.

Performance

In 2016 the engineering consumables segment contributed 49% (2015: 50%) of group turnover and 39% (2015: 41%) of group operating profit. Turnover increased by 4,0% to R2,7 billion but operating profit decreased 1,9% to R255 million.

As with the consumer-related products businesses, Hudaco's engineering consumables businesses are geared towards general economic activity (GDP). Fixed investment (GDFI) spending is important to our businesses but mostly because it creates more economic activity. This characteristic makes earnings of this segment less cyclical compared with, for instance, sellers of capital equipment. During economic downturns customers do reduce activity and often mothball capital equipment from which they can strip replacement parts. This obviously impacts our sales but it generally does not last long and demand soon resumes.

The main brands stocked by Hudaco are of European, USA or Japanese origin or design but are manufactured in many countries around the world including China. We are often asked if there is a threat of cheaper Chinese and Indian brands taking market share from Hudaco. Clearly there is if we are not alert. Also, the tougher the economic conditions, the more likely customers are to buy down. However, currently, reverse engineered machines sourced from these countries are of inconsistent quality with spare parts often not readily available. Customers are generally reluctant to gamble by buying cheaper machines or copy parts with an unknown brand because the downtime consequences of fitting substandard parts significantly outweighs the cost saving. When manufacturers in these countries reach the appropriate quality to price standard – as they eventually will – we believe Hudaco will be a logical and sought-after local distributor. We do already carry many brands from these countries alongside our more established brands and increasingly offer them to customers when we are confident that quality matches the application.

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Refer to page 51 for a geographic analysis of the source of supply of the engineering consumables product range.

Bearings International

Bearings International has a broader exposure to the general economy through its branch network than other businesses in this segment. The main markets that Bearings International serves (mining, steel, petro-chemical, sugar, agriculture and manufacturing) had another difficult year but we managed to achieve a better result.

2016 was the end of our three-year turnaround strategy for Bearings International. Sales increased marginally year on year despite a depressed market and strengthening Rand. The volatile Rand and competitive environment led to a slip in the gross margin, but tight control on expenses led to an increase in operating profit. It is now well placed to make a more meaningful contribution to the group.

PRINCIPAL BRANDS: BEARINGS INTERNATIONAL		
SCHAEFFLER INA FAG	Precision bearings from Germany.	Distributor since 2005
JTEKT Koyo	Ball and roller bearings from Japan.	Sole distributor since 1962
KAYDON	Thin section bearings from USA.	Distributor since 2008
COOPER	Split roller bearings from UK.	Sole distributor since 1937

Deutz Dieselpower (DDP)

Deutz diesel engines are designed (and priced) for high-end, heavy duty variable speed and constant load applications and its main market is the mining industry, which has unfortunately been shrinking in recent market conditions. Most Deutz engines sold into Africa south of the equator – broadly the geographical area for which DDP has responsibility – are fitted to equipment manufactured in other parts of the world and imported by original equipment distributors such as Sandvik and Atlas Copco.

DDP's principal activity therefore is providing support for Deutz engines through service and parts, the sale of replacement engines to those customers and supplying new engines to the few OEM's in this region. The margin on parts is higher than on new engines, so a key strategy to grow profitability is to grow the engine population. This is achieved by offering excellent support for Deutz engines wherever they are located and however they arrived in our territory.

DDP had a good year in 2016 despite the reduction in generator sales from the prior year because of the absence of load shedding. The platinum mining market (DDP's main revenue contributor for many years) saw prices increase and with it mining sentiment, only to decrease again through to November. DDP has seen some positive effects from the increased activity in gold mines with increased engine sales to local OEM's that benefit from increased capital spending in the gold mines.

The performance in the genset market remains positive, especially if compared with pre-2015 activity. There had been strong and consistent growth in this market and we expect this trend to continue. It is expected that the mining market will grow slightly as the labour market returns to normality and most of the Anglo Platinum asset sales are concluded. The regulatory requirements for emission controls underground are developing at a constant pace and this will place Deutz engines at a distinct advantage over the Indian and Chinese copied imports as Deutz engines already comply with European emission regulations, the most stringent in the world.

PRINCIPAL BRANDS: DEUTZ DIESELPOWER		
DEUTZ	Air and liquid-cooled engines from Germany 12 – 520kW.	Sole distributor since 1969

Filter and Hose Solutions (FHS)

FHS faced significant challenges during the past year. Turnover was down on the year before. This was due mainly to the mining and construction industries being depressed. Exports to neighbouring countries suffered in line with depressed opencast mining and construction sectors in those countries. Notwithstanding this, rigorous cost management and improved internal processes plus an aggressive sales strategy are starting to pay dividends. Furthermore, there has been a renewed focus on FHS's methodology of customised filtration solutions and technical superiority to leverage the inherent resilience of its business model.

The slight uptick in the SA mining industry, with the apparent stabilisation of global commodity prices and the relative strength of the Rand are positive signs for the business in 2017. Cost savings realised in 2016 will remain in place. In the year, ahead, FHS will aim to further grow its market share in the mining and construction industries and will look to compete in the industrial and on-highway filtration markets.

Power transmission businesses

Electrical power transmission

The division includes Powermite, Varispeed, Ampco, Proof Engineering and Three-D Agencies. The main market segments in which the division operates (mining and manufacturing) remained depressed throughout the year.

The division found the first half of the year to be especially tough and at half year it was significantly behind the previous year. Sales in the second half were very good and the division not only caught up but ended the year slightly up on the previous year.

Structural changes made in this business during the second half of 2016 lowered Proof's cost structure and the benefits of this will be realised in 2017. Varispeed and Three-D Agencies continued to perform well.

PRINCIPAL BRANDS: ELECTRICAL POWER TRANSMISSION

YASKAWA	Variable speed drives from Japan.	Distributor since 1992
BAUER	Geared motors from Germany.	Sole distributor since 1989
TfKable	Electrical cable from Poland.	Distributor since 1998
AMPCO	Own range of electrical plugs and sockets.	Since 1974
MENNEKES	Plugs and sockets from Germany.	Sole distributor since 1974
Conductix Wampfler	Electrical feeder systems from Europe.	Distributor since 1970

Mechanical power transmission

This includes Ambro Steel, Astore Keymak, Bauer, Belting Supply Services, Berntel, Bosworth, Brewtech, Ernest Lowe, HERS, Dosco (including GPM), Joseph Grieveson and Sanderson Special Steels.

Ambro Steel, Astore Keymak, Belting Supply Services and Bosworth had a very good year, finishing well ahead of 2015. At GPM, where we opened a USA located warehouse to take advantage of growing demand for our product, sales plummeted as customers reduced their own inventories because we could deliver on much shorter lead times. This is a once-off issue and customer take-up has already started to normalise. The new acquisitions, HERS and Brewtech, both made strong contributions.

PRINCIPAL BRANDS: MECHANICAL POWER TRANSMISSION

NORGREN	European pneumatic equipment.	Sole distributor since 1959
agru	Thermoplastic pipes and fittings from Austria.	Sole distributor since 1995
UNIDELTA	Mechanical seal compression fittings from Italy.	Sole distributor since 1997
NTCR	Industrial hose from Thailand.	Sole distributor since 2002
habasit rossi	Transmission and conveyor belting from Switzerland.	Distributor since 1970
Donaldson	Heavy duty filtration from USA.	Distributor since 1994
FILTREC Technical Filtration	High performance hydraulic filtration from Italy.	Sole distributor since 2003
KPM Staffa	Kawasaki Staffa radial piston motors.	Distributor since 2000
KPM	Kawasaki axial piston pumps.	Distributor since 2000
GPM Gear Pump Manufacturing	Hydraulic, grey iron, bearing and bushing gear pumps.	Manufacturer and distributor since 1985
JOSEPH GRIEVESON	Ferrous and non-ferrous castings.	Manufacturer and distributor since 1915
REXNORD	Chain, sprockets, bearings and related products from the Netherlands.	Distributor since 2010
KESSLER+CO	LHD Axles, gearboxes, diffs and transmissions.	Distributor and repairer since 2004

Outlook for the engineering consumables segment

There are two macro-economic factors that affect the performance of the engineering consumables segment:

- activity (output) in the mining and manufacturing sectors; and
- Rand strength or weakness, which impacts pricing.

The local manufacturing industry is heavily dependent on the mining sector in South Africa. These two market sectors are significant users of engineering consumables and represent 55% of this segment's sales.

Most the businesses in this segment performed satisfactorily considering the economic circumstances. The second half results were very encouraging with increases in sales and operating profit over 2015 second half. The outlook for mining in South Africa seems a little more positive going into 2017 with an increase in commodity prices. This momentum we believe will carry over into 2017.

ENGINEERING CONSUMABLES

SOURCE OF PRODUCTS

	(%)
South Africa	43
Germany	17
China	11
Japan	9
European Union – other	6
United Kingdom	4
Italy	4
Asia – other	3
Other	3

Africa outlook

Despite political and financial turmoil on the continent and the impact of an extended period of low commodity prices, Hudaco's exports into Africa grew by an encouraging 12% year on year.

Exports to Namibia and Botswana grew steadily, but to Mozambique they were sharply down. In Zambia, some mothballed mining projects came back online, which had a positive effect. In Zimbabwe we did see moderate growth but the new bond notes, issued to replace scarce hard currency, are already curbing economic activity further. Political turmoil in Central Africa, along with the low commodity prices, resulted in negative growth for the region. As there are large projects on the go, we need to remain focused so we can capitalise on opportunities when political stability returns.

Most of the export growth came from East Africa, where the countries are financially and politically stable and there are new infrastructure projects. It is becoming a key area for growth and we are well-positioned to exploit this in future. Ethiopia and Uganda were the main contributors. West Africa, specifically Ghana, was also a growth area. Some Hudaco businesses have already started to service this market successfully. This trend should continue with the uptick in infrastructure and mining projects that is currently under way.

Black economic empowerment

During 2016, all businesses were again audited by independent verification bodies. Hudaco Trading achieved a level 4 status on the new Codes, which we consider an excellent achievement as it is only one level lower than on the old Codes. This status then applies to all its businesses and subsidiaries, meaning that customers are able to claim 100% (and in some cases 125%) of their spend with us for the purpose of their own scorecards.

While it is difficult to quantify, we are of the opinion that our enhanced BEE standing has resulted in the following benefits:

- business won;
- customers retained; and
- attracting potential acquisitions – the acquisitions we have made in recent years were previously 100% owned by white shareholders. Our BEE status has become critical to our acquisitive success.

See pages 59 and 60 for further details of our transformation programme.

59, 60

A restructuring of the current BEE trusts that hold shares in Hudaco Trading Proprietary Limited is underway. The education and charitable trusts will both become trusts for the benefit of all qualifying black employees of Hudaco. To this end, the education trust acquired the remaining 4,83% of Hudaco Trading during the year from one of the original BEE shareholders, the Ulwazi Consortium. The education programme will continue unabated within Hudaco Trading itself and both trusts will be renamed. It is expected that this restructuring will be completed during 2017. It will not only provide black employees with an economic interest in Hudaco but will also enhance Hudaco's ownership component for the new Codes.

Environmental impact

Hudaco is committed to contributing to an environment that is not harmful to health or wellbeing and that is protected for use by current and future generations.

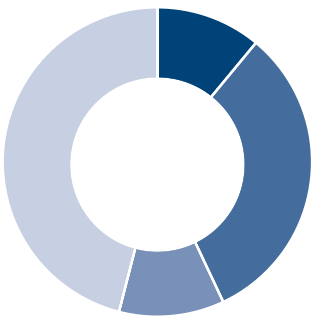
As mentioned in our previous integrated report, Mike Allnutt a senior manager was appointed at the end of 2015 as environmental executive. He was mandated to review Hudaco's environmental policy framework and to update it where required as well as to improve the group's environmental management systems through the identification of significant aspects; the documentation of objectives and targets, internal system audits; internal communication of the environmental policies and training of relevant employees. During 2016 he worked closely with the group's executive committee and the social and ethics committee towards ensuring that the company understood its responsibilities in relation to its environmental impacts.

Our businesses generally operate warehouses and branch networks and only a few are involved in manufacturing. The JSE has classified Hudaco as having an overall medium environmental impact, which suggests a moderate environmental effect. Our choice of suppliers and their locations have important consequences. We believe that Hudaco has a low environmental impact.

Except where there is potentially an issue, we do not screen new businesses for their environmental and social performance, nor do we formally assess suppliers. However, all of our businesses are required to be certified against environmental, health and safety, quality and social management systems for internal risk management – respectively, the ISO 14001, OHSAS 18001, ISO 9001 and ISO 26000 standards. When we do acquire businesses without these certifications, we put in place a programme to ensure that they obtain the accreditation within an appropriate timeframe.

ENVIRONMENTAL BENCHMARK FOR HUDACO'S BUSINESS DIVISIONS

ISO 14001 ACCREDITATION 2016 (%)



	(%)
Under review	11
Compliant	32
Accreditation in progress	11
Accredited	46

Owing to our comparatively low purchases from global suppliers as a proportion to their total sales, our ability to influence their manufacturing methods is negligible. For example, our total annual Makita power tools purchases are approximately two days' production from Makita's factories globally.

Environmental and social performance of suppliers is driven by the largest markets which they supply (such as the EU and the USA). As these markets tend to be progressive leaders in the environmental and social landscape, they do have much more influence on the production standards of our suppliers than we do.

Most of our brands are manufactured according to stringent environment standards of Japan and Europe, which generally exceed the requirements of the countries where their products are used (eg the relatively poor South African emission standards on diesel engines).

In those instances where we source unbranded products directly from manufacturers, we visit the factories concerned and assess informally whether there are any evident reasons, such as inappropriate labour practices or pollution, why we should not support that particular supplier.

Similarly, there is limited opportunity for us to develop post-consumer collection, recycling or recovery of our used products. Generally, our products are either serviceable (as in the case of diesel engines or power tools) or are disposed of post-use by our customers (as in the case of filters and hoses). Certain of our products contain hazardous components such as electronic circuit boards, but volumes are too small to formalise collection, recycling or disposal systems. Metal components from power tools for example, are sent for recycling, and contaminated water from diesel engine workshops is treated prior to disposal.

As mentioned in our previous integrated report, and based on the fact that Hudaco's ability to influence change is minimal, our efforts regarding supply chain sustainability will be limited to information gathering alone, followed by a determination as to where and how interventions may be possible and productive.

Although we have not established a formal climate change policy at this stage, we, as importers understand that our products generally travel long distances before they eventually reach our customers. This is a consequence of our business model and our geographic location at the southern tip of Africa. We aim to achieve economies of scale by scheduling orders efficiently and streamlining our logistics operations, thus minimising our carbon footprint.

As was done in previous years, in support of protecting our environment through the saving of paper and the decreasing of our carbon footprint, a summarised report was printed and sent out to our shareholders.

Notwithstanding the factors described above impeding Hudaco's ability to substantially change our suppliers' environmental and social performance, the board continues to ensure that the company meets its responsibilities in relation to its environmental impacts.

In Hudaco's 2015 integrated report we indicated our intention to assess the environmental impact of our business operations. As a first step in this direction a group of Hudaco's management personnel were tasked (as part of their assignment towards the completion of the senior leadership development programme facilitated by the Wits Business School) to identify and assess Hudaco's activities which impact on the environment. Twenty eight businesses were engaged in this environmental impact study. Questionnaires were distributed to all businesses and the collated data was used to provide a comprehensive overview of Hudaco's environmental status. The assessment was mainly focussed on:

- greenhouse gas emissions;
- air pollution;
- energy consumption and energy saving initiatives;
- water consumption and water saving initiatives; and
- material waste management.

It was found in general that Hudaco's businesses could be more active in managing elements within their respective business environments. Some of the larger businesses were more environmentally aware than the smaller ones. Hudaco has scope for enhancement and a plan of action is presently being developed to address issues identified in the assessment. These plans will focus on the following:

- the appointment of a dedicated environmental specialist to implement policies and manage the environmental portfolio;
- review and update of the company's environmental policy;
- development of an environmental manual which includes guidelines to address issues such as water and energy usage, recycling and waste management;
- the implementation by all the businesses of a monthly environmental reporting system to facilitate accurate data collection, which data is to be collated and used for setting targets and reporting purposes;
- setting of realistic targets for the various businesses and the implementation of a specific tool to track usage versus targets set; and
- accurate reporting of all environmental metrics applicable to Hudaco.

During the year, the following environmental initiatives were highlighted to the businesses:

- improving energy consumption by way of expanding renewable energy and the utilisation of energy efficient devices such as low energy consuming air-conditioning systems, LED luminaires and automated switching devices for controlling lighting and heating demands. In implementing this, a number of our businesses improved their energy consumption.
- reducing emissions pollution and ensuring that product waste was and is correctly disposed of.
- investigating the recycling of "grey water" including water catchment projects pertaining to rain water was identified and is an ongoing assignment.
- improving logistic management to prevent duplication and unnecessary transportation of commodities and cargo in order to reduce our CO_2 emissions.

As previously reported, a social and ethics committee has been established in each business. These committees are required to convene at least twice a year to discuss activities and projects that will enhance and improve environmental performance and initiatives.

Elvey Security Technologies – delivering excellence for 70 years!

Founded in 1946 by Charles Elvey, Elvey began as a small independent business. Then known as "Charles Elvey Agencies" the company represented various British manufacturers specialising in enameled copper wire, ferrite electrical components and small electrical equipment. After growing Elvey steadily for over 30 years, Charles took on a partner in Elliot Weinstein and in the years that followed, together they opportunistically expanded the business into various complementary markets that included sirens, fire retardant cables and fire protection equipment.

In 1982, Elvey expanded into intruder alarms. This led to the establishment of partnerships with key international suppliers such as Caddx, DSC, Optex and Aritech that would strengthen and thrive for many years to come. Elvey positioned itself in the late eighties and into the nineties to add meaningful value to a growing security market, which saw it expand its distribution capability and network of branches accordingly.

After listing on the JSE in 1999, Elvey was acquired by Hudaco in 2001 and continued to grow on the back of an expanding security market under Jack Edery, who was appointed as CEO in 2003. Elvey expanded its product portfolio to include CCTV, access control, electric fencing and consumables, as well as its reach into the niche high-end security projects market through the acquisition of Pentagon in 2011.

Today, Elvey has a strong distribution footprint that extends throughout southern Africa, a product range in excess of 3 000 line items and an overall staff complement of more than 220 highly knowledgeable and dedicated employees who ensure Elvey provides exceptional value to its customers. Now under the stewardship of newly appointed CEO, Gary Lowe, Elvey's vision is to stand tall as the market leader in enhancing safety, control and intelligence within homes and workplaces, through the provision of superior technologies and solutions.

70 years on, the Elvey family is still just as passionate about customer service – a legacy that will endure well into the future!

Global Communications sponsors Cricket SA

Since South Africa's return to the international cricketing fold in 1995, Global Communications has been a proud sponsor of the Kenwood Two Way radios used by the umpires.

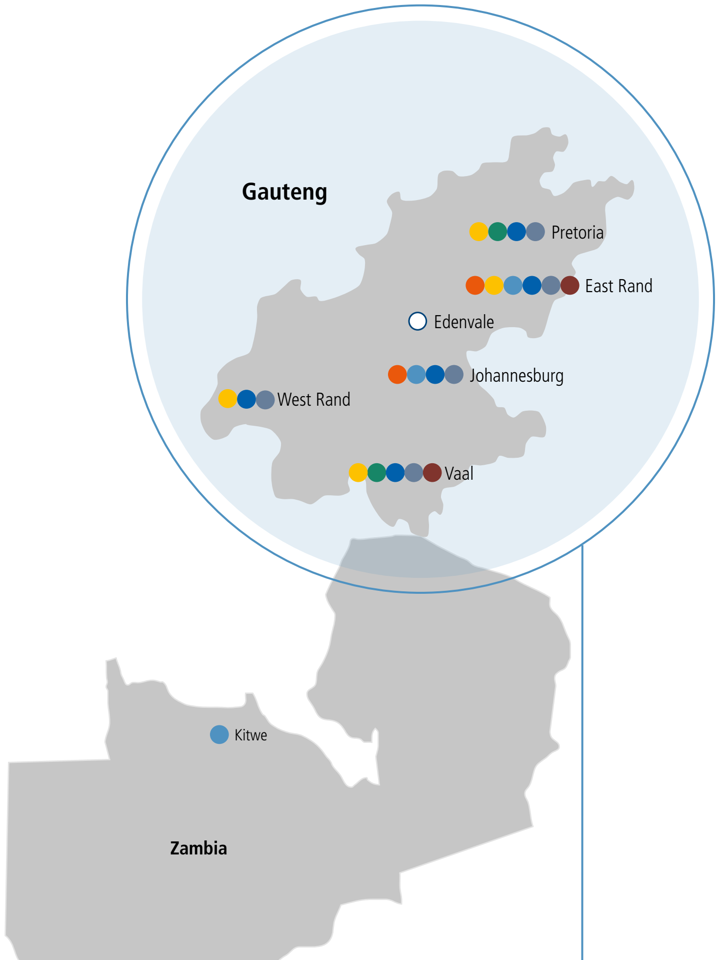
The sponsorship has involved the supply and maintenance of 100 Kenwood radios to Cricket SA. This long standing relationship between ourselves and Cricket SA is set to continue for many years to come.

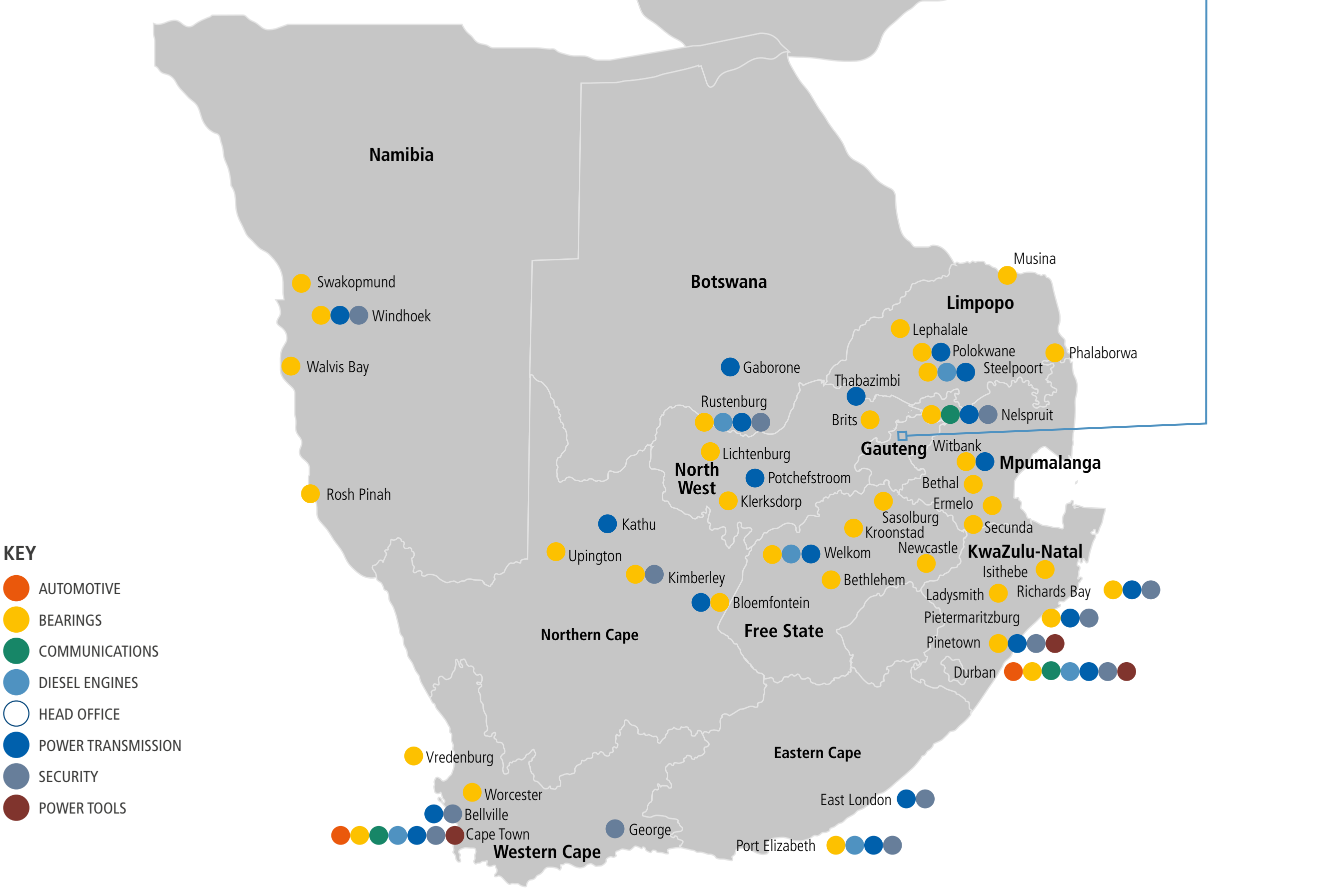
GEOGRAPHIC FOOTPRINT

Location of businesses

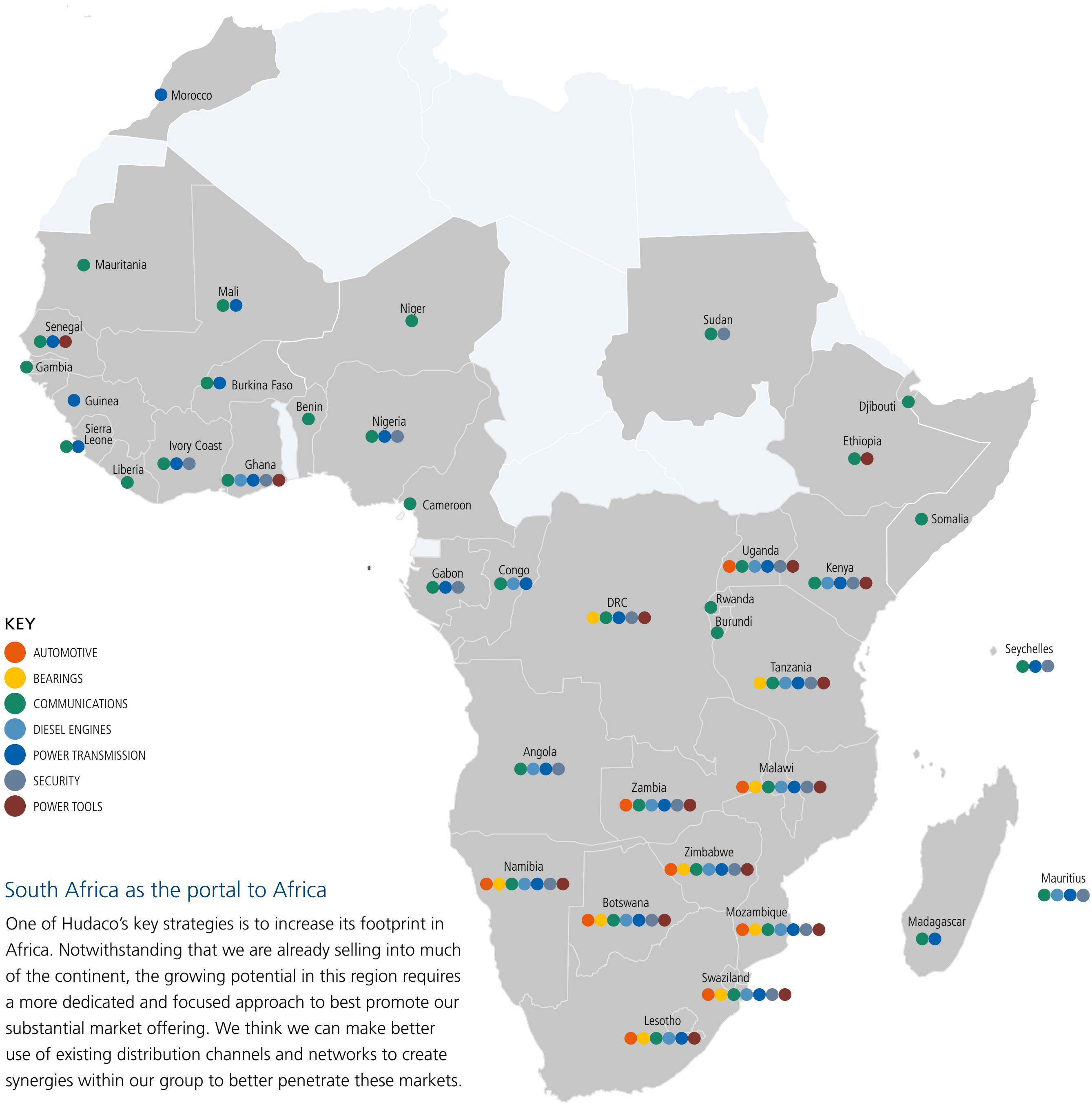
	Number of employees	
	2016	**2015**
Gauteng	**2 016**	1 893
Western Cape	**412**	409
KwaZulu-Natal	**345**	349
North West	**73**	60
Free State	**68**	71
Mpumalanga	**61**	71
Eastern Cape	**56**	56
Limpopo	**43**	47
Northern Cape	**6**	8
Namibia	**10**	12
Zambia	**4**	4
USA	**2**	

We also operate franchises in Mozambique and Zimbabwe.





Business



South Africa as the portal to Africa

One of Hudaco's key strategies is to increase its footprint in Africa. Notwithstanding that we are already selling into much of the continent, the growing potential in this region requires a more dedicated and focused approach to best promote our substantial market offering. We think we can make better use of existing distribution channels and networks to create synergies within our group to better penetrate these markets.

The following steps have been taken to achieve this strategy:

1. A senior manager is focusing on developing business in Africa. He has reporting to him a manager who is dedicated full time to this initiative.
2. We target countries that are growing fast and have a relatively settled regulatory environment.
3. The target zone is predominantly sub-Saharan countries strong in mining.
4. While our preference is to appoint and support high quality distributors, we will set up Hudaco branches in partnership with local entities (or even on our own) if considered expedient.
5. To ensure customer satisfaction and loyalty, the branches that we do have carry sufficient stock and offer comprehensive technical support.

The map above reflects the African countries into which we already sell directly or in which our local customers use the products bought from us.

EMPLOYEE REPORT

Our employees are critical to the achievement of our strategic objectives. Many of the business-critical skills that we require are in short supply and we recognise the importance of attracting, developing, rewarding and retaining the best people to deliver on our business goals.

Our key focus areas include attracting and developing core skills, implementing sustainable leadership development and succession plan strategies, achieving transformation and maintaining our B-BBEE rating. However, we also continue to manage other areas important to human capital success, including employee engagement, health and safety, organised labour relations, performance management and salary benchmarking.

Workforce profile

	2016	2015
Total workforce	**3 417**	3 041
Less: Non-permanent employees	**321**	61
Total permanent workforce	**3 096**	2 980
Racial and gender profile		
White males	**712**	694
White females	**398**	385
Black, Indian and Coloured males	**1 534**	1 477
Black, Indian and Coloured females	**452**	424
Occupational level profile		
Top and senior management	**133**	112
Middle management	**335**	338
Junior management	**1 068**	1 026
Non-management	**1 560**	1 504
Management profile by gender		
Females	**396**	362
Males	**1 140**	1 114
Management profile by race		
White	**893**	865
Black, Indian and Coloured	**643**	611
Non-management profile by gender		
Females	**454**	447
Males	**1 106**	1 057

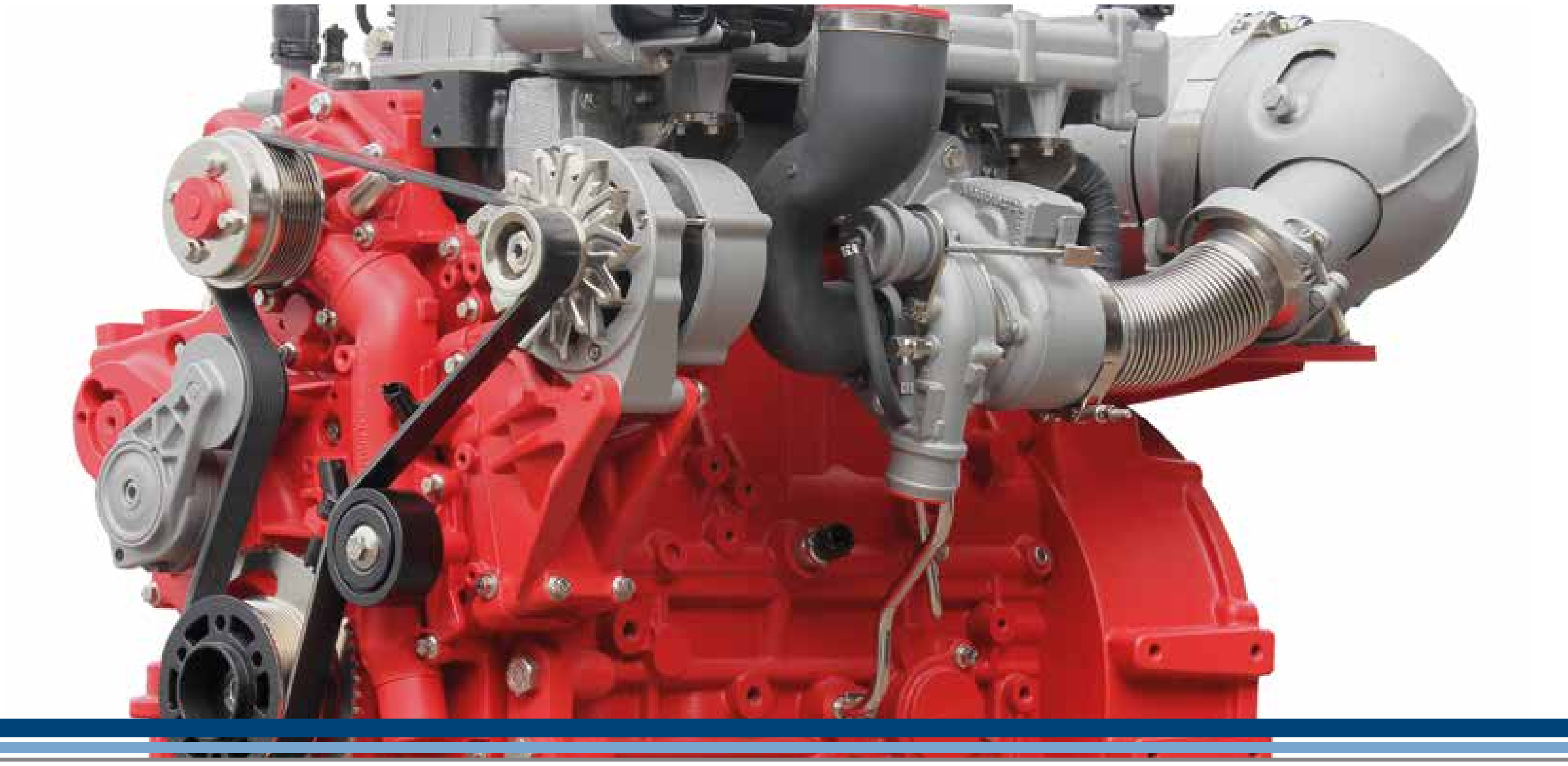
	2016	2015
Non-management profile by race		
White	**217**	214
Black, Indian and Coloured	**1 343**	1 290
Disability profile by gender		
Female	**10**	6
Male	**12**	8
Disability profile by race		
White	**8**	8
Black, Indian and Coloured	**14**	6

Decentralised management

Hudaco has developed a decentralised management style that has proven successful over many years.

Placing decision-making responsibility into the hands of people at all levels of the organisation offers the following benefits to independently minded employees:

- delegating authority and responsibility empowers employees and allows them to respond quickly to customers' requirements and changing circumstances; and
- it instils self-discipline and encourages leadership, initiative and innovation.



To those of our employees, both current and future, who choose to invest in their careers, work hard and see their future within the Hudaco group, we will continue to provide them with our full support.

It is an important function of group management to put in place remuneration structures to ensure decentralised management personnel keep a strong focus on the contribution they need to make to enable the group to meet group strategic objectives.

Talent management

Although members of senior management are remunerated primarily according to financial performance, they are also responsible for people management. Annual performance reviews include a rating of their achievements in the following:

- ability to appreciate and articulate the broad picture of the business relative to the sector within which they operate, as well as within Hudaco;
- achievement of budgets, plans and agreed personal objectives;
- ability to attract and retain star employees; and
- communication ability, both oral and written.

One of the consequences of investing in skills development in South Africa, especially in black professionals, is that as these employees develop and gain experience and skills, they become a prime target for headhunting by larger organisations who can offer more attractive packages. The alternative, ie not investing in staff development, would, however, be a far more serious threat to the continuity and sustainability of our business model.

As far as possible, we try to maximise retention of key talent by providing incentives in the form of performance bonuses, developing long-term career path opportunities for our staff within the broader group and consultation with a view to identifying staff with potential for growth.

We have improved communication to our staff of the opportunities for lateral movement between our businesses, and internal promotions within the group. We feel that the group is diverse enough to be able to accommodate individual career aspirations without losing talent to competitors.

Transformation

We acknowledge that a key area of opportunity to improve our BEE rating is in management. Although we have made meaningful progress, too many of our senior management are white males. The need for developing future black, female and disabled management talent is receiving significant priority.

As an important step in driving transformation in the group, Jonny Masinga, group transformation and human resources executive, who has more than 15 years' experience in human resources management, organisational development and transformation, has as one of his key tasks in Hudaco to accelerate the appointment of black senior managers.

EMPLOYEE REPORT continued

Our strategy with regard to transformation is largely unchanged:

- Black representation in management is a core focus for all management appointments. All senior appointments in the group – the designated top 100 or so people – are monitored at Exco and board level to ensure that every endeavour is made to find qualified black candidates to fill vacant positions, while ensuring that the consequences of this policy do not result in a diminution of the high standards to which we aspire.
- BEE has been incorporated into succession planning. The retirement process offers an opportunity to identify the date when positions will become vacant and gives time to develop black candidates at middle-management level and below, for these senior management posts.
- Hudaco is also concentrating on a better gender balance across its workforce. Recruitment and development processes throughout the organisation focus on female as well as black recruits to ensure a balanced "pipeline of talent".

Skills development and training

Successfully taking advantage of opportunities for growth, both acquisitive and organic, depends on the quality of our people. Given the shortage of technical and engineering skills in general in South Africa and in particular among the black population, we put special focus and resources on building these skills. We have identified the building of the following skill sets within Hudaco as being our key focus areas:

- The senior management team: We have identified members of the senior management team whom we believe have the qualities required for growth to executive level in due course. These people have been given expanded responsibilities and are being nurtured with a view to their being able to step into the breach as more senior managers reach retirement age. Most members of the senior management team have attended Master of Business Administration (MBA) and other master's degree courses at various universities. During 2016, seven senior managers of whom four were black, were sponsored by the group to study MBA degrees.
- Technical expertise: Critical relationships in the field are with the technical and maintenance teams of our customers. They place the orders upon which we depend for our turnover. We need a constant supply of new sales staff with the right technical skills to be able to adapt to and service our customers' changing needs. The demise of the apprenticeship system in local industry as a pipeline of skills into this area is regrettable. Although we are essentially a group of distribution businesses we run in-house apprenticeships where we can and technical traineeships where we cannot.

Under the auspices of the group transformation and human resources executive and with the assistance of the Wits Business School which is internationally recognised, the group conducted a future leaders development programme (FLDP) for junior management, managers leadership development programme (MLDP) for middle management and senior leaders development programme (SLDP) for senior management. The aim of these programmes is to provide a steady flow of leadership talent for the group, with particular emphasis on developing black leadership. We are already having success in bringing potential black leaders through the ranks and preparing them for future middle and senior management positions. The 2016 FLDP had 25 participants, of whom 22 were black, the MLDP had 15 participants, of whom eight were black and the SLDP had 12 participants, of whom six were black.

Customer interaction occurs primarily through our technical sales team. As they are the face of the business and the drivers of organic growth in revenue, we invest heavily in their training. New appointees are sent for training prior to being placed in the field. The board also supports training and skills development initiatives through bursary programmes, management training schemes (as described above), experiential trainee programmes, mentorships, apprenticeships, educational assistance and learnerships. Extensive in-house and external training is given in a wide range of practical and theoretical subjects to better equip employees with the skills required for senior positions. The apprenticeship programme content includes financial administration, human resources administration, inventory management and warehousing courses, as well as technical product training. In total 71 (2015: 95) staff members successfully completed their courses in 2016.

GPM, Joseph Grieveson, Dosco, Bearings International, Ernest Lowe, Bosworth, Powermite, Deutz Dieselpower and Global Communications run SETA accredited apprenticeship programmes in terms of which participants are trained in various trades. In 2016, 41 (2015: 39) technical and semi-skilled employees participated in the programmes.

Additionally, Hudaco provides human resources support by deploying some of the engineering trainees to support the mechanical engineering laboratory of the University of Johannesburg with the objective of maintaining the international standard of qualifications awarded by its mechanical engineering department. Students of the university are offered practical training at businesses in the group, and some subsequently find full-time employment in the group. Hudaco also provides financial support to the Thuthuka Bursary Fund, which develops and trains black chartered accountants.

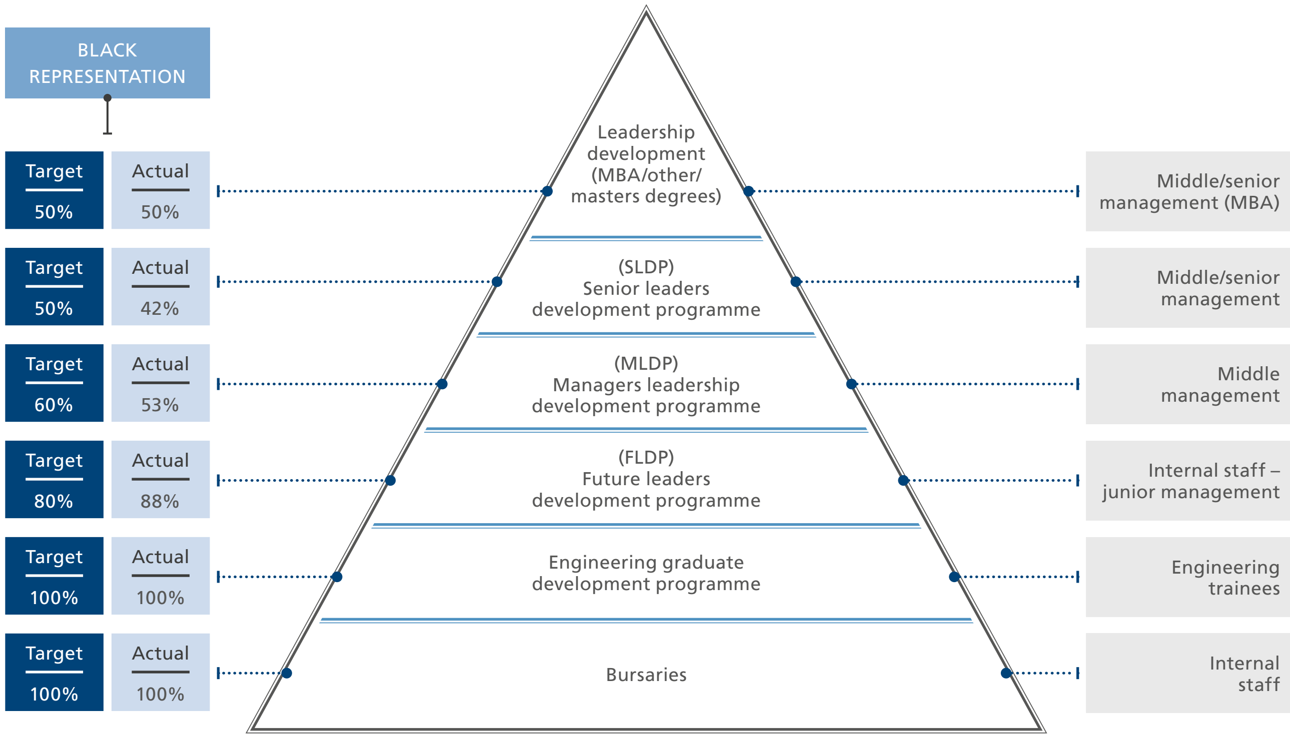
During the year under review, group expenditure on employee training amounted to approximately R10,3 million (2015: R7,8 million).

We also invest in developing product knowledge in our customers or the installers of the products that we distribute, which results in deep brand loyalty. As a policy, we do not charge for this training of the installers or our agents – we believe that as we are in the business of distributing high-quality brands, the more the clients understand the value of the product, the more loyal they will be.

In 2012 Hudaco introduced an engineering graduate development programme with the aim of addressing skills shortages in the technical side of our business. Currently 100% of the participants are black. This programme has grown from eight participants in 2012 to 20 in 2016. Every effort is made to absorb the graduates in our employ as they qualify. Our target is to have at least 20 participants in this programme on an annual basis. We are delighted that thus far 17 of our programme participants have qualified as engineers through the University of Johannesburg and Vaal University of Technology.

On page 61 is a graphic depicting the overall training initiatives implemented by Hudaco during 2016 as well as the targets set. Employment equity and skills development committees exist at the group's various businesses to drive the various skills development programmes.

Growing our own talent 2016



Succession planning

A formal performance management and succession policy is in place. We continued with our executive development programme where we employ four young black MBA graduates or students (three of whom are women) and give them a broad range of experience accross the group with a view to ultimately integrating them into the management teams of specific businesses as opportunities arise. We continued to focus on communicating our succession plans with senior management during the year and ensuring that our training and development efforts and employment equity plans are in alignment.

Corporate ethics and governance

It is a fact that the cost of compliance in corporate South Africa is increasing every year. The introduction of new legislation, new reporting standards, listings requirements, BEE, environmental, social and governance issues etc are all potential distractions from the core business of running profitable businesses.

While compliance with all these requirements is compulsory, it is common for the seller of a business to be discouraged by too much corporate governance red tape. As former owners of private businesses themselves, many members of the executive of Hudaco are sensitive to these concerns. We therefore try to ensure that only the essentials are dealt with at business unit level, and that, as far as possible, compliance is head office driven.

The Hudaco Code of Ethics is in line with King III (refer to the summary on page 62). The code applies to all employers and employees in the group. It is communicated as part of every new employee's induction, is included in all training programmes, and guides us in the determination of our corporate values. These values include: fairness, respect and dignity, tolerance of alternative views, protection from victimisation, encourage healthy relationships, mutual support and loyalty. Employees are not inhibited in any way with regard to collective bargaining or union membership but levels of unionisation in our businesses are low. During the year, no incidents of discrimination were reported.

To facilitate enforcement of our Code of Ethics, Hudaco has established a fraud and ethics hotline, which is managed by an external service provider. This hotline enables employees to communicate sensitive information securely, confidentially and anonymously if they suspect that a criminal act or any contravention of the code has been committed by another employee. Some of our suppliers run compliance programmes which are extended to us – for example, Deutz AG's global policies on anti-corruption, money laundering, emissions, labour safety and compliance with Germany's federal office of economics and export control legislation.

Potential exposure to bribery and corruption is mitigated through internal controls within our businesses, by taking strong action against transgressors, closely scrutinising sales reports, conducting regular stock counts, using undercover security personnel, reviews by group internal audit and encouraging honesty and professionalism in the day-to-day activities of the businesses. After making regular enquiries, the board is not aware of any significant non-compliance with legislation, including anti-competitive behaviour, during the year.

Code of Ethics

All Hudaco group businesses and their employees are to strive conscientiously to act with honesty and integrity in accordance with a high level of moral and ethical standards in their business and inter-personal dealings.

All employees in Hudaco group businesses will be assumed to commit themselves to know, understand and support these values. Some specific values are listed below:

- compliance with laws, rules and regulations;
- fairness, respect and dignity;
- tolerance of alternative views;
- mutual trust, honesty and respect for colleagues;
- support and loyalty;
- superior performance;
- providing a safe and healthy working environment for all employees;
- management of performance and recognition;
- customer satisfaction;
- proper communication and transparency;
- confidentiality;
- non-corruption;
- avoiding any conflicts of interest; and
- care for the environment.

Organised labour and employee rights

601 employees (2015: 546) are covered by collective bargaining agreements and belong to either the National Union of Metalworkers of South Africa (NUMSA), Solidarity or the Transport and Allied Workers Union (TAWU).

In addition to union representation, employee rights are protected through full compliance of all the businesses with relevant labour and employment related legislation.

Copies of the Basic Conditions of Employment Act, Skills Development Act and the Employment Equity Act are displayed in all workplaces. Formal grievance procedures are in place through which employees can raise issues. There were no grievances relating to human rights during the year.

While certain countries from which Hudaco sources products have been identified as posing a potential risk to human rights, none of our businesses has specifically been identified as posing a risk for incidents of forced or compulsory labour, child labour or for undermining the right to exercise freedom of association and collective bargaining.

Remuneration

An important aspect of our management philosophy is to establish in our remuneration structures a clear link between performance of the group (delivering value to shareholders) and the performance of the underlying businesses (delivering value to customers). To achieve this, executive remuneration at the group level, as well as senior management within each business, is structured on three levels:

- **Guaranteed pay and benefits:** This level of remuneration applies to all employees within the group. In addition, employees are required to join a group negotiated medical aid scheme (unless they are below a certain earnings threshold or on a spouse's medical aid scheme) and a pension or provident fund if they are not on an industry fund.
- **Formula-based short-term incentives:** This level of remuneration applies to the top 100 or so senior managers in the group. For those employed in business units, this is comprised roughly equally of two annually measured performance criteria: RONA, and growth in profits in the businesses under their control. The group chief executive and financial director are remunerated on primarily ROE and growth in comparable headline earnings per share. A portion of their short-term incentives is based on the achievement of non-financial key objectives.
- **Long-term share-based arrangements**
  - Share appreciation rights scheme: This level of remuneration applies only to the top 195 managers in the group. It comprises a reward for share price appreciation realised through share appreciation rights that vest between three to five years after award. It is designed to ensure that management takes a medium to long-term view when acting on matters which may affect business performance and share price.
  - Share matching scheme: In order to align better the interests of the executives with those of shareholders and to ensure that the executives have capital at risk in Hudaco, a share matching arrangement is in place for executives and certain senior managers who are three years or more from retirement. Participants are required to invest in Hudaco shares a minimum of 12,5% and up to a maximum of 50% of their after-tax short-term incentive-based remuneration. These shares are to be acquired on the open market. Provided the participant holds these shares and remains in the employ of Hudaco for three years, the company will match the value of the shares by acquiring an equal number of shares on the open market for the benefit of the executive. There are currently 12 participants on this scheme.

Further information on executive remuneration is set out in the report of the remuneration committee, commencing on page 33. 33

Retirement funds

Employees who do not belong to an industry fund (ie unionised staff) contribute to the Evergreen umbrella defined contribution pension and provident funds administered by Old Mutual. Fund members receive risk benefits such as life cover, spouses and children pensions, funeral cover and disability cover, depending on the fund to which they belong. There are some businesses acquired by the group whose employees remain on their pre-acquisition retirement funds.

Health and safety

Health and safety is important in that we need to protect those assets, ie our people, in whom we have invested so heavily and upon whom we depend for our success. More importantly, it is an integral part of responsible employment practice.

Our sales and managerial teams spend many hours each day on the road and in factories, mines, workshops, etc and hence place themselves in situations where their health and, most importantly, their safety, requires constant attention. In accordance with the OHS Act, Hudaco businesses have health and safety committees, which meet once a month to discuss OHS issues. These committees comprise health and safety representatives, people trained in first aid and fire team members. Comprehensive safety training is conducted alongside measures such as fire drills and evacuation procedures, buddy support systems, driver training, regular servicing and inspection of machinery, hazard reduction and safety awareness signage.

The Hudaco group has a life-threatening diseases policy, as well as a separate HIV/Aids policy, the purpose of which is to:

- ensure a working environment where employees living with HIV/Aids are protected from unfair discrimination and stigmatisation and are treated with dignity, compassion and respect;
- ensure stability and productivity in the workplace;
- encourage disclosure by HIV/Aids infected employees without fear of victimisation or prejudice; and
- empower employees to prevent the spread of HIV and Aids through training and education.

Our health and safety record for 2016 shows no fatalities, 88 disabling injuries (2015: 56) and a disabling injury frequency rate (DIFR) per 200 000 hours worked of 2,57 (2015: 1,71). The injury rate is higher compared to the previous year, showing a marked increase in trip-and-fall injuries. The executive committee has requested businesses to highlight safe practices and to provide additional health and safety training, where required.

SHEQ systems

All business units are required to be certified against the applicable standards for environmental, health and safety, quality and social risk management, ie ISO 14001, OHSAS 18001, ISO 9001 and ISO 26000. Most of our businesses have already achieved certification against at least three of the standards. ISO 26000 (a social responsibility standard) is relatively new to the business arena, and will be rolled out in due course. No incidences of non-compliance, prosecution or fines relating to environmental performance or health and safety were reported during 2016.

Wellness

Hudaco acknowledges the importance of belonging to an accredited, stable and sustainable medical aid scheme and therefore provides all permanent employees with a medical aid subsidy to assist members financially.

As a condition of employment, all personnel joining the company as permanent employees earning more than the threshold (currently R10 900 per month) are required to join the preferred medical aid scheme of the company unless proof can be supplied of membership of another scheme as a dependant. Employees earning less than the threshold may also join the medical scheme and similarly qualify for the subsidy. The current preferred medical aid scheme is Discovery Health.

Hudaco's subsidy policy is to fund 50% of the total medical scheme contribution up to a maximum of the Classic Priority option, while the member is responsible for the balance of the total premium including optional Vitality membership. Members can select a higher ranking option, but pay the full upgrade cost. All in-service employees who belong to the preferred scheme, their spouse and child dependants up to age 21 qualify to receive the subsidy from Hudaco. By definition, members whose remuneration is based on total cost-to-company (senior management) do not benefit from this subsidy.

In addition to the medical aid subsidy, Hudaco also provides a 50% subsidy for all medical scheme members who belong to Kaelo Xelus Gap Insurance. This insurance covers members who experience shortfalls on their hospital claims as a result of co-payments or tariff differences charged by medical professionals.

There were, on average, 1 211 employees on the medical scheme during the year to November 2016. Contributions totalled R56 million, of which R21 million was covered by the Hudaco subsidy, which was limited to 50% of Classic Priority. Gap insurance cost a further R1,7 million, of which Hudaco paid half.

With the support of Alexander Forbes Health, Hudaco ran a total of 33 employee wellness programmes at our locations in Gauteng, Durban and Cape Town. Employees, irrespective of whether they were covered by medical aid or not, were offered, at no cost to themselves:

- health risk assessment: height, weight, blood pressure, cholesterol, glucose and BMI;
- eye screening by a mobile optometrist;
- HIV voluntary testing and counselling;
- questionnaire on lifestyle habits; and
- immediate feedback of the results including information on risk factors, healthy eating and exercise habits.

All businesses that participate in the wellness programme receive a report indicating certain risk factors within the organisation. In total, 1 188 (2015: 791) Hudaco employees of whom 709 (2015: 452) are not on medical aid, took advantage of the opportunity and had a health risk assessment, while 737 (2015: 464) employees checked their HIV status. 37 (2015: 23) employees tested positive for HIV, representing 5% of the employees tested, similar to the previous year. They received counselling and were referred to the most appropriate channel to seek medical treatment. Major risk factors identified consistently across the group were Body Mass Index (BMI) and elevated blood pressure. In total, 31% of Hudaco employees tested were overweight, indicating a slight increase compared to 2015. Without intervention, this could lead to the development of high blood pressure, high cholesterol and diabetes. 26% of employees tested had elevated blood pressure, which showed an increase of 6% compared to 2015. One on one health education was given to each employee to encourage an active lifestyle that includes physical activity and healthy eating with more emphasis on avoiding foods high in sugar, fat and salt.

The wellness days provided the opportunity for employees who are not on medical aid, and who would otherwise not take the time to be tested for these potentially life-threatening conditions, to have their assessments done on-site and free of charge. The relevant employees have been given the appropriate advice to address their conditions. Some Hudaco businesses provide additional support. Filter and Hose Solutions sponsors two doctor visits per annum (which includes medication) for their employees or their family members who are not on a medical aid. Once a month, DDP runs a mobile clinic, staffed by a qualified nurse, offering medical advice to employees not covered by medical aid.

EMPLOYEE REPORT continued

Enterprise development and socio-economic development

Hudaco favours suppliers that have good BEE scorecard ratings and uses SMMEs (small, medium and micro-enterprises) wherever possible, working closely with them to improve their service delivery.

Hudaco spent R9,8 million (2015: R8,6 million) on various enterprise and supplier development initiatives during its 2016 financial year. Some of these included:

- Belting Supply Services and Bearings International continued to offer business support ie assistance through training and mentorship to various SMMEs.
- Proof Engineering supported SMMEs in business development;
- Deutz Dieselpower continued its system of early payments to level 4 B-BBEE contributors and supported the services of a black woman owned optometrist.
- Dosco supported SMMEs in business development;
- Deltec provided products at special rates for SMMEs;
- Ambro Steel provided a facility for a black female optometrist on their premises;
- Abes Technoseal subsidised canteen facilities, owned by black women at their premises; and
- FHS supports a recycling initiative with black owned SMMEs.

Each year the board sets aside a specific amount for socio-economic development. Through financial and non-financial contributions, Hudaco is involved with a number of specific projects aimed at improving the lives of previously disadvantaged communities.

These funds are managed and distributed by Hudaco's head office on behalf of business units. In 2016, Hudaco donated approximately R2,4 million (2015: R1,8 million) to a variety of socio-economic development initiatives.

Mandela Day

Hudaco in partnership with ORT SA, one of the biggest educational NGO's in South Africa continued to honour Nelson Mandela Day. ORT SA's mission is: Empowering people through education, skills and enterprise development and contributing to the upliftment of all South Africans.

This year Hudaco's employees participated in a fun, educational game conceptualised by ORT SA. This game is based on the Bill of Responsibilities, which mirrors South Africa's Bill of Rights and was used to teach learners at Kutloanong Primary School (700 learners) and Rebonwe Primary School (2 000 learners) to understand that while they were entitled to certain rights, these rights were subject to concomitant responsibilities. Hudaco contributed R200 000 towards this initiative.

Staff education programme

The Hudaco Trading BEE Staff Education Trust, a 10% shareholder in Hudaco Trading, was established with a mandate to empower current and future black employees, their spouses and their children by granting tertiary education scholarships, bursaries and study loans to eligible applicants. Beneficiaries may study towards any career of their choice and, on completion of their studies, are under no obligation to work for Hudaco. As in previous years, Hudaco provided the required funding as the trust has not yet built up sufficient reserves to fund these bursaries. Going forward, Hudaco's education programme will no longer fall under the trust and will be funded directly by Hudaco. The structure of the above-mentioned trust is in the process of being changed to fit in with the new dti BBBEE codes, for the benefit of all black employees with qualifying service.

In 2016, 78 (2015: 72) students were granted bursaries, of whom 49 were women. Of these, 13 completed their qualifications as depicted in more detail below. The bursaries and study loans amounted to R1,25 million (2015: R1,1 million). For the 2017 academic year 90 students have been identified for bursaries, of whom 55 are women.

Graduate	Description of relationship with Hudaco	Institution	Qualification obtained
Frieda Mdlayi	Wife of a Deltec store controller	UNISA	B Education
Keziah Boosie	Daughter of a Bearings International sales representative	UNISA and Varsity College	B Education
Rhonda Olivier	Daughter of a Rutherford store supervisor	University of Cape Town	B Com Accounting
Nhlanhla Nene	Daughter of an Ampco packer and assembler	University of Johannesburg	BA Communication
Khutso Aphane	Son of an FHS customer service administrator	Tswane University of Technology	ND Human resources management
Andrew Ratladi	Son of a BSS splicer	University of Johannesburg	B Com Accounting
Tamlyn Brown	Daughter of a Varispeed supervisor	University of Pretoria	BA Speech-language pathology
Dillon Faro	Son of a Rutherford storeman	University of Cape Town	BA Sport recreation and exercise science
Kate Tshipelo	Daughter of a Rutherford sales representative	University of Johannesburg	B Tech Multi-media design
Princess Majenge	Store administrator at Elvey Security Technologies	University of Johannesburg	ND Logistics management
Celeste Rajcoomar	Daughter of a BSS supervisor	Durban College	ND Education
Cherzal Naidoo	Administration clerk at BSS	Berea Technical College	ND Business management and marketing
Sipho Radebe	Son of a Rutherford cleaner	University of Johannesburg	BA Humanities

FLDP, MLDP and SLDP 2016

Engineering students (standing) who participated in the FLDP

AUDITED ANNUAL FINANCIAL STATEMENTS

Audited annual financial statements

Institutional investors, private shareholders, bankers, corporate finance houses, analysts and government

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AUDIT AND RISK MANAGEMENT COMMITTEE'S REPORT

The audit and risk management committee has pleasure in submitting this report, as required in terms of the South African Companies Act.

The audit and risk management committee consists of three directors who act independently. During the year under review, three meetings were held. At these meetings the members fulfilled their functions as prescribed by the South African Companies Act and the JSE Listings Requirements. Details of the functions of the audit and risk management committee are contained in the corporate governance section on pages 36 to 38.

The audit and risk management committee has satisfied itself that:

- the auditors are independent of the company and are thereby able to conduct their audit without any influence from the company; and
- the accounting practices and systems of internal control are appropriate, adequate and monitored effectively.

The audit and risk management committee has evaluated the group annual financial statements for the year ended 30 November 2016 and considers that they comply, in all material aspects, with the requirements of the Companies Act and International Financial Reporting Standards. The committee therefore recommended the annual financial statements for approval by the board. The board has subsequently approved the financial statements which will be presented at the forthcoming annual general meeting.

D Naidoo
Chairman of the audit and risk management committee

2 February 2017

CERTIFICATE BY THE GROUP SECRETARY

In accordance with the provisions of section 88(2)(e) of the South African Companies Act, I certify that, to the best of my knowledge and belief, the company has filed for the financial year ended 30 November 2016 all such returns and notices as are required of a public company in terms of the said Act, and that all such returns and notices appear to be true, correct and up to date.

Reana van Zyl
Group secretary

2 February 2017

DIRECTORS' REPORT

Reporting period

The directors have pleasure in presenting their report for the company's financial year ended 30 November 2016. The annual financial statements for the year ended 30 November 2016 were authorised for issue in accordance with a resolution of the directors on 2 February 2017. Hudaco Industries Limited is a public company incorporated and domiciled in South Africa whose shares are publicly traded. The principal activities of the group are described below:

Nature of business

Hudaco is a South African group that imports and distributes branded industrial and electronic consumables, power tools and security, automotive and communication products. Its customer base is mainly within the southern African manufacturing, mining, construction, automotive aftermarket and security industries. Adding value to the product sold by offering technical advice, prompt availability and training is a key part of Hudaco's business model.

Financial results

Earnings attributable to equity holders of the parent for the year ended 30 November 2016 were R388 million (2015: R369 million). The results represent basic earnings per share of 1 226 cents (2015: 1 164 cents). Headline earnings per share were 1 222 cents (2015: 1 163 cents) and comparable earnings per share were 1 171 cents (2015: 1 169 cents).

The results of the company and the group are set out in these financial statements.

Dividends

R million	**2016**	2015
Dividend number 58 of 345 cents per share declared on 28 January 2016	**118**	106
The record date was 4 March 2016 and the dividend was paid on 7 March 2016		
Dividend number 59 of 170 cents per share declared on 30 June 2016	**58**	61
The record date was 12 August 2016 and the dividend was paid on 15 August 2016		

The dividends reflected above include dividends on 2 507 828 shares held by a subsidiary.

On 2 February 2017 the directors declared dividend number 60 of 355 cents per share, being the final dividend in respect of the year ended 30 November 2016. The record date will be Friday, 3 March 2017 and the dividend will be paid on Monday, 6 March 2017.

Subsidiaries

Particulars of the principal subsidiaries of the company are set out on page 106 of the financial statements.

Acquisitions and disposals

There were no disposals during the financial year.

The following acquisitions were made during the year:

Acquisition of the trading assets and liabilities of Hydraulic Engineering Repair Services (HERS)

With effect from 1 December 2015, Hudaco acquired the trading assets and liabilities of HERS, a manufacturer and repairer of hydraulic cylinders with a division that focuses on the repair and refurbishment of drivetrain components including axles, transmissions and torque converters for the mining, construction, manufacturing and other industries.

The purchase consideration, subject to a maximum of R100 million, is to be settled as follows: an initial amount of R33 million that was paid in cash on 29 January 2016 and the balance payable in cash in two tranches on 4 February 2017 and 4 February 2018 based on actual levels of average profitability achieved in the years to 30 November 2016 and 30 November 2017.

Acquisition of the trading assets and liabilities of All-Trade Distributors

With effect from 1 January 2016, Hudaco acquired the trading assets and liabilities of All-Trade Distributors as a bolt-on operation to the FTS rivets division of Rutherford. This business distributes fasteners and various bolts, screws, washers and related products.

The purchase consideration, subject to a maximum of R33 million, is to be settled as follows: an initial amount of R16 million was paid in cash on 4 January 2016 and the balance is payable in cash in two tranches on 6 March 2017 and 6 March 2018 based on average levels of profitability achieved in the years to 31 December 2016 and 31 December 2017.

Acquisition of the trading assets and liabilities of MiRO

With effect from 1 May 2016, Hudaco acquired the trading assets and liabilities of MiRO, a distributor of wireless, networking, VoIP and video products sourced from leading international producers.

The purchase consideration, subject to a maximum of R322 million, is to be settled as follows: an initial amount of R75 million was paid in cash on 1 May 2016 and the balance is payable in cash in three tranches on 4 July 2017, 4 July 2018 and 4 July 2019 based on actual levels of average profitability achieved in the years to 30 April 2017, 30 April 2018 and 30 April 2019.

Acquisition of the trading assets and liabilities of Brewtech Engineering

With effect from 1 June 2016, Hudaco acquired the trading assets and liabilities of Brewtech Engineering. This business imports and distributes branded stainless steel and plastic products for conveyors, such as chains, sprockets, idler wheels, wearstrips, seals, washers and membranes. The business also manufactures certain plastic components. Its current customer base is primarily in the food and beverage industry, with an emphasis on bottling.

The purchase consideration, subject to a maximum of R70 million, is to be settled as follows: an initial amount of R29 million was paid in cash on 1 June 2016 and the balance is payable in cash in three tranches on 5 August 2017, 5 August 2018 and 5 August 2019 based on average levels of profitability achieved in the years to 31 May 2017, 31 May 2018 and 31 May 2019.

The following acquisitions were made after the reporting date:

Acquisition of the trading assets and liabilities of SS Telecoms

With effect from 1 December 2016, Hudaco acquired the trading assets and liabilities of SS Telecoms, a voice and data solution provider, specialising in PBX (premise-based, cloud, call centre, data routing, Wi-Fi), communication management software, voice recording, handsets and telephone management. SS Telecoms manufactures certain specialised products for fleet management and voice routing, while also providing mobile technology solutions, including LTE, LTE Advanced, 3G, Fixed Line and VoIP.

The purchase consideration, subject to a maximum of R102,6 million, is to be settled as follows: an initial amount of R26,8 million was paid in cash on 1 December 2016 and the balance is payable in cash in three tranches on 5 February 2018, 5 February 2019 and 5 February 2020 based on average levels of profitability achieved in the years to 30 November 2017, 30 November 2018 and 30 November 2019.

Acquisition of the trading assets and liabilities of Commercial ICT

With effect from 1 December 2016, Hudaco acquired the trading assets and liabilities of Commercial ICT as a bolt-on operation to Elvey Security Technologies. This business is a core IT-systems and infrastructure provider, with exclusive agencies for communication products in various industries, including the security industry for the supply, management and maintenance of these products. Commercial ICT hosts and supports core IT infrastructure, cloud-based services, managed and monitored communication networks and telecoms solutions and sells hardware and data-based airtime for its communication products.

The purchase consideration, subject to a maximum of R7,65 million, is to be settled as follows: an initial amount of R1 million was paid in cash on 1 December 2016 and the balance is payable in cash in three tranches on 5 February 2018, 5 February 2019 and 5 February 2020 based on average levels of profitability achieved in the years to 30 November 2017, 30 November 2018 and 30 November 2019.

Resolutions

No special resolutions, the nature of which might be significant to shareholders in their appreciation of the state of the affairs of the Hudaco group, were passed during the period covered by this integrated report.

Authority to buy back shares

At the forthcoming annual general meeting in March 2017, shareholders will be asked to provide the directors with authority to purchase up to 1 582 285 (5%) of Hudaco's issued shares. If approved, this authority will be valid until the following year's annual general meeting and subject to the Listings Requirements of the JSE Limited, allowing the Hudaco group to purchase its own shares up to 1 582 285 of the issued shares, at a price not greater than 10% above the preceding five-day weighted average.

During the year, Hudaco continued to hold indirectly, through a wholly owned subsidiary, a total of 2 507 828 Hudaco shares, representing approximately 7,3% of its issued capital, by way of treasury shares.

Share capital

The authorised share capital and issued share capital remained unchanged during the year.

Full details of the authorised and issued capital of the company at 30 November 2016 are contained in notes 17.1 and 17.2 to the financial statements.

Share-based remuneration scheme

Full details of the company's share-based remuneration schemes are set out in note 17.5 to the financial statements.

DIRECTORS' REPORT continued

Directorate

Information on the directors of the company in office at the date of this report appears on pages 18 and 19 of the integrated report.

There were no new appointments or resignations during the 2016 financial year.

In terms of the company's memorandum of incorporation, Ms D Naidoo and Messrs RT Vice and CV Amoils are required to retire by rotation at the forthcoming annual general meeting.

All these directors are available, eligible and recommended for re-election. Their profiles appear on pages 18 and 19.

Directors' interests

The directors' interests in the issued shares of the company are set out in note 27.1.

Details of the executive directors' interests in the Hudaco share appreciation bonus scheme and share matching scheme are provided in note 27.2 to these financial statements.

Directors' remuneration and details of their service agreements

The remuneration of executive and non-executive directors are determined by the company's remuneration committee. Further information relating to the remuneration of the directors, together with details relating to the value of share appreciation right and share matching right allocations during the year, are set out in note 27.3 to the financial statements.

Secretary

Reana van Zyl is the secretary of the company. The address of the secretary is set out on page 117.

Borrowing powers

The borrowing powers of the Hudaco group are unlimited. At 30 November 2016, unutilised borrowing facilities amounted to R691 million (2015: R551 million).

Statement of directors' responsibility

The directors of the company are responsible for the preparation of the annual financial statements and related financial information that fairly presents the state of affairs and the results of the company and the group.

The annual financial statements set out in this report have been prepared under the supervision of CV Amoils CA (SA), financial director, in accordance with statements of International Financial Reporting Standards and the requirements of the South African Companies Act and the JSE Listings Requirements. These are based on appropriate accounting policies, consistently applied, which are supported by reasonable and prudent judgements and estimates.

The external auditors are responsible for carrying out an independent examination of the financial statements in accordance with International Standards on Auditing and reporting their findings thereon. The auditor's report is set out on page 71.

To enable the board to meet its responsibilities, systems of internal control and accounting and information systems have been implemented. These are aimed at providing reasonable assurance that risk of error, fraud or loss is reduced. The group's internal audit function, which has unrestricted access to the group's audit and risk management committee, evaluates and, if necessary, recommends improvements to the systems of internal control and accounting practices, based on audit plans that take cognisance of the relative degrees of risk of each function or aspect of the business.

The audit and risk management committee, together with the internal auditors, plays an oversight role in matters relating to financial and internal control, accounting policies, reporting and disclosure.

To the best of its knowledge and belief, based on the above and after making enquiries, the board of directors confirms that it has every reason to believe that the company and the group have adequate resources in place to continue in operational existence for the foreseeable future. For this reason, it continues to adopt the going concern basis in preparing the annual financial statements.

The annual financial statements for the year ended 30 November 2016, which appear on pages 67 to 106, were approved by the board on 2 February 2017 and are signed on its behalf by:

RT Vice
Chairman

GR Dunford
Chief executive

2 February 2017

INDEPENDENT AUDITOR'S REPORT

To the shareholders of Hudaco Industries Limited

We have audited the consolidated and separate financial statements of Hudaco Industries Limited, as set out on pages 72 to 106, which comprise the statements of financial position as at 30 November 2016, and the statements of comprehensive income, statements of changes in equity and statements of cash flows for the year then ended, and the notes, comprising a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the financial statements

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

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated and separate 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 about whether the consolidated and separate 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 auditor's 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 consolidated and separate financial statements present fairly, in all material respects, the consolidated and separate financial position of Hudaco Industries Limited as at 30 November 2016, and its consolidated and separate financial performance and consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards, and the requirements of the Companies Act of South Africa.

Other reports required by the Companies Act

As part of our audit of the consolidated and separate financial statements for the year ended 30 November 2016, we have read the directors' report, audit and risk management committee's report and company secretary's certificate for the purpose of identifying whether there are material inconsistencies between these reports and the audited consolidated and separate financial statements. These reports are the responsibility of the respective preparers. Based on reading these reports we have not identified material inconsistencies between these reports and the audited consolidated and separate financial statements. However, we have not audited these reports and accordingly do not express an opinion on these reports.

Report on other legal and regulatory requirements

In terms of the IRBA Rule published in Government Gazette Number 39475 dated 4 December 2015, we report that Grant Thornton has been the auditor of Hudaco Industries Limited for 31 years.

Grant Thornton

Grant Thornton
Chartered Accountants (SA)
Registered Auditors
Practice number: 903485E

VR de Villiers
Partner
Chartered Accountant (SA)
Registered Auditor

2 February 2017

@Grant Thornton
Wanderers Office Park
52 Corlett Drive
Illovo, 2196

GROUP STATEMENT OF COMPREHENSIVE INCOME
for the year ended 30 November 2016

R000	Notes	2016	2015
Turnover		**5 534 233**	5 230 082
Ongoing operations		**5 076 674**	5 215 870
Operations acquired after December 2014		**457 559**	14 212
Cost of sales		**3 535 831**	3 312 660
Gross profit		**1 998 402**	1 917 422
Operating expenses	5	**1 359 036**	1 311 784
Operating profit	5	**639 366**	605 638
Ongoing operations		**572 697**	604 220
Operations acquired after December 2014		**66 669**	1 418
Adjustment to fair value of amounts due to vendors of businesses acquired		**19 163**	(2 289)
Profit before interest		**658 529**	603 349
Finance costs	6	**100 579**	75 581
Profit before taxation		**557 950**	527 768
Taxation	8	**147 613**	141 575
Profit after taxation		**410 337**	386 193
Equity accounted income from joint venture		**2 665**	2 966
Profit for the year		**413 002**	389 159
Other comprehensive (loss) income to be reclassified to profit and loss subsequently		**(7 982)**	3 705
(Loss) gain on fair value of cash flow hedges – current year		**(4 235)**	4 568
Reclassification of gain on fair value of cash flow hedges to profit		**(3 244)**	(662)
Exchange loss on translation of foreign operations		**(503)**	(201)
Total comprehensive income for the year		**405 020**	392 864
Profit attributable to:			
– Equity holders of the parent		**387 916**	368 508
– Non-controlling shareholders	17.7	**25 086**	20 651
		413 002	389 159
Total comprehensive income attributable to:			
– Equity holders of the parent		**381 140**	371 617
– Non-controlling shareholders	17.7	**23 880**	21 247
		405 020	392 864

Basic earnings per share (cents)	9	**1 226**	1 164
Diluted basic earnings per share (cents)	9	**1 222**	1 163
Headline earnings per share (cents)	9	**1 222**	1 163
Diluted headline earnings per share (cents)	9	**1 219**	1 161
Comparable earnings per share (cents)	9	**1 171**	1 169
Diluted comparable earnings per share (cents)	9	**1 168**	1 167

GROUP STATEMENT OF FINANCIAL POSITION
at 30 November 2016

R000	Notes	2016	2015
Assets			
Non-current assets		**1 611 263**	1 366 612
Property, plant and equipment	10	**256 106**	261 116
Investment in joint venture	11	**6 700**	6 665
Goodwill	12	**1 242 736**	1 001 073
Intangible assets	13	**67 821**	68 588
Deferred taxation	14	**37 900**	29 170
Current assets		**2 618 900**	2 407 412
Inventories	15	**1 508 099**	1 368 663
Trade and other receivables	16	**1 046 001**	990 110
Taxation		**17 597**	9 581
Bank deposits and balances		**47 203**	39 058
Total assets		**4 230 163**	3 774 024
Equity and liabilities			
Equity		**2 129 400**	1 895 163
Equity holders of the parent		**2 064 756**	1 843 749
Non-controlling interest	17.7	**64 644**	51 414
Non-current liabilities		**869 365**	830 890
Amounts due to bankers	18.1	**710 000**	800 000
Amounts due to vendors of businesses acquired	18.2	**147 991**	17 132
Deferred taxation	14	**11 374**	13 758
Current liabilities		**1 231 398**	1 047 971
Trade and other payables	19	**897 935**	764 397
Bank overdraft		**242 184**	254 972
Amounts due to vendors of businesses acquired	18.2	**75 889**	22 421
Taxation		**15 390**	6 181
Total equity and liabilities		**4 230 163**	3 774 024

GROUP STATEMENT OF CASH FLOWS
for the year ended 30 November 2016

R000	Notes	2016	2015
Cash flow from operating activities			
Operating profit		**639 366**	605 638
Adjusted for:			
Settlement of share-based payments		**2 842**	(21 550)
Depreciation less profit on disposal of property, plant and equipment		**41 606**	39 540
Amortisation of intangible assets		**24 096**	29 049
Decrease (increase) in working capital	22.1	**40 897**	(156 538)
Cash generated from operations		**748 807**	496 139
Fair value adjustment of cash flow hedges		**(7 479)**	3 906
Taxation paid excluding tax settlement	22.2	**(174 164)**	(185 701)
Net cash from operating activities before tax settlement		**567 164**	314 344
Tax settlement – payments made	22.2		(192 000)
Net cash from operating activities		**567 164**	122 344
Cash flow from investing activities			
Additions to property, plant and equipment	10	**(36 190)**	(37 395)
Proceeds from disposal of property, plant and equipment		**6 576**	6 138
Acquisition of businesses	20	**(148 741)**	(447 934)
Decrease in loan to joint venture		**2 630**	2 472
Payments to vendors of businesses acquired	22.3	**(19 437)**	(17 757)
Net cash from investing activities		**(195 162)**	(494 476)
Cash flow from financing activities			
(Decrease) increase in non-current amounts due to bankers		**(90 000)**	603 000
Finance costs paid	22.4	**(86 930)**	(73 053)
Dividends paid	22.5	**(173 625)**	(158 064)
Net cash from financing activities		**(350 555)**	371 883
Decrease (increase) in net bank overdraft		**21 447**	(249)
Foreign exchange translation loss		**(514)**	(125)
Net bank overdraft at beginning of the year		**(215 914)**	(215 540)
Net bank overdraft at end of the year	22.6	**(194 981)**	(215 914)

GROUP STATEMENT OF CHANGES IN EQUITY

for the year ended 30 November 2016

R000	Share capital	Share premium	Non-distributable reserves	Retained income	Equity holders of the parent	Non-controlling interest	Equity
Note	17.2		17.6	17.4		17.7	
Balance at 1 December 2014	3 415	51 533	65 938	1 546 566	1 667 452	33 167	1 700 619
Comprehensive income for the year			3 705	367 912	371 617	21 247	392 864
Movement in equity compensation reserve			5 580	(27 130)	(21 550)		(21 550)
Dividends (note 21)				(155 064)	(155 064)	(3 000)	(158 064)
Balance at 30 November 2015	3 415	51 533	75 223	1 732 284	1 862 455	51 414	1 913 869
Less: Shares held by subsidiary company	(251)		(41)	(18 414)	(18 706)		(18 706)
Net balance at 30 November 2015	3 164	51 533	75 182	1 713 870	1 843 749	51 414	1 895 163
Balance at 1 December 2015	**3 415**	**51 533**	**75 223**	**1 732 284**	**1 862 455**	**51 414**	**1 913 869**
Comprehensive income for the year			**(7 242)**	**388 382**	**381 140**	**23 880**	**405 020**
Movement in equity compensation reserve			**(4 061)**	**6 903**	**2 842**		**2 842**
Dividends (note 21)				**(162 975)**	**(162 975)**	**(10 650)**	**(173 625)**
Balance at 30 November 2016	**3 415**	**51 533**	**63 920**	**1 964 594**	**2 083 462**	**64 644**	**2 148 106**
Less: Shares held by subsidiary company	**(251)**		**(41)**	**(18 414)**	**(18 706)**		**(18 706)**
Net balance at 30 November 2016	**3 164**	**51 533**	**63 879**	**1 946 180**	**2 064 756**	**64 644**	**2 129 400**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS
for the year ended 30 November 2016

1. Accounting policies

1.1 Basis of preparation

The group and company annual financial statements are prepared on the historical cost basis adjusted for certain financial instruments measured at fair value, and incorporate the following principal accounting policies, which conform with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB), the South African Institute of Chartered Accountants Financial Reporting Guides as issued by the Accounting Practices Committee and the requirements of the South African Companies Act and the JSE Listings Requirements. These policies have been consistently applied.

1.2 Basis of consolidation

The group financial statements incorporate all the assets, liabilities and results of the company and all entities that are controlled by the company. In all cases results are reported from the effective date of acquisition or to the effective date of disposal using the acquisition method.

The company controls an entity when it is exposed or has rights to variable returns from its involvement with the entity and has the ability to affect those returns through power over the entity.

Non-controlling interests in the net assets of consolidated entities 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.

1.3 Business combinations

The consideration transferred by the group to obtain control of a subsidiary is calculated as the sum of the acquisition date fair values of assets transferred, liabilities incurred and the equity interests issued by the group, which includes the fair value of any asset or liability arising from a contingent consideration arrangement. Acquisition costs are expensed as incurred.

The group recognises identifiable assets acquired and liabilities assumed in a business combination regardless of whether they have been recognised in the acquiree's financial statements prior to the acquisition. Assets acquired and liabilities assumed are measured at their acquisition date fair values in terms of IFRS 3.

Goodwill is stated after separate recognition of identifiable intangible assets. It is calculated as the excess of the sum of:

- fair value of consideration transferred;
- the recognised amount of any non-controlling interest in the acquiree; and
- acquisition date fair value of any existing equity interest in the acquiree,

over the acquisition date fair values of identifiable net assets.

If the fair values of identifiable net assets exceed the sum calculated above, the excess amount (ie gain on a bargain purchase) is recognised in profit or loss immediately.

Contingent liabilities are only included in the identifiable assets and liabilities of the acquiree where there is a present obligation at the acquisition date.

Any contingent consideration to be transferred by the group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration, which is deemed to be a liability, is recognised in accordance with IAS 39 in profit or loss.

1.4 Revenue

Revenue is recognised when the amount of revenue can be measured reliably, collection is probable, the costs incurred or to be incurred can be measured reliably, and when the criteria for each of the group's different activities have been met. The specific recognition criteria for these activities are described below:

Turnover

Turnover represents the invoiced value of goods and services sold outside the group less both settlement discounts and VAT. Turnover is recognised at the fair value of the consideration received or receivable when the risks and rewards pass to the customer. Significant risks and rewards are generally considered to have passed to the customer when the customer has taken undisputed delivery of goods and services.

Dividend income

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

Income from investments

Interest income is accrued on a time basis by reference to the principal outstanding and at the interest rate applicable.

1.5 Cost of sales

When inventories are sold, the carrying amount is recognised as part of cost of sales. Any write-down of inventories to net realisable value and all losses of inventories or reversals of previous write-downs or losses are recognised in cost of sales in the period the write-down, loss or reversal occurs.

1.6 Short-term employee benefits

The cost of short-term employee benefits (those payable within 12 months after the service is rendered, such as paid vacation leave and sick leave, bonuses and non-monetary benefits such as medical care) is recognised in the period in which the service is rendered and is not discounted.

The expected cost of incentive payments is recognised as an expense when there is a legal or constructive obligation to make such payments as a result of past performance.

1.7 Operating leases

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

1.8 Share-based payments

The group operates equity-settled share-based compensation plans for senior and middle management including executive directors. The costs of these arrangements are measured by reference to their fair value at the dates on which they were granted. The fair values are charged as an expense in determining operating profit, with a corresponding credit to equity, on a straight-line basis over the initial vesting period of each grant. The costs take into account the best estimate of the number of rights that are expected to vest, taking into account non-market conditions such as exits from the schemes prior to vesting and operating performance compared to target for vesting, where applicable. These estimates are revised at each reporting date and the impact of the revision is to spread the new estimated remaining cost over the balance of the vesting periods, including the current year.

1.9 Retirement benefits

Defined contribution pension or provident schemes are operated by all group companies. Contributions made to these schemes are charged to profit in the year in which they are payable.

By virtue of the types of schemes operated in the group, no past service costs or experience adjustments will arise in the retirement funding arrangements.

1.10 Borrowing costs

Borrowing costs are recognised in profit in the period in which they are incurred.

1.11 Current taxation

The tax currently payable is based on the taxable profit for the year. Taxable profit differs from profit as reported in the statement of comprehensive income as it excludes items of income and expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The group's tax liability is calculated using tax rates that have been enacted or substantively enacted at the reporting date.

1.12 Property, plant and equipment

Buildings, plant and equipment are carried at cost less accumulated depreciation and impairment. They are depreciated on a straight-line basis to their expected residual values over their estimated useful lives. Both their residual values and useful lives (note 10) are re-assessed annually. Land is stated at cost to the group.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in profit when the item is derecognised.

1.13 Investments in subsidiaries and joint ventures

Investments in subsidiaries are carried at cost less accumulated impairments, if any. The cost of the investment in a subsidiary is the aggregate of the fair value of assets given, liabilities incurred or assumed, and equity instruments issued by the company.

Investments in joint ventures are accounted for using the equity method in accordance with IAS 28 *Investments in Associates and Joint Ventures*. Under the equity method, on initial recognition the investment in a joint venture is recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition. The investor's share of the investee's profit or loss is recognised in the investor's profit or loss. Distributions received from an investee reduce the carrying amount of the investment.

1.14 Goodwill

Goodwill is initially measured and carried at cost. It represents the excess of the purchase consideration over the fair value of the group's share of the net fair value of identifiable assets, liabilities and contingent liabilities of the acquired entity at the date of acquisition. Goodwill is reviewed for impairment at least annually. Any impairment is immediately recognised as an expense and not reversed in future years.

1.15 Intangible assets

An intangible asset is an identifiable non-monetary asset without physical substance and is initially recognised at fair value if acquired as part of a business combination and at cost if acquired separately or internally generated.

If assessed as having a finite life, it is amortised over its useful life using the straight-line basis and tested for impairment if there is an indication that it may be impaired. Useful lives (note 13) are re-assessed annually.

1.16 Deferred tax

A deferred tax liability is recognised for all taxable temporary differences, except to the extent that the deferred tax liability arises from the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction, affects neither accounting nor taxable profit.

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

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

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

1.17 Inventories

Inventories are valued at the lower of cost and net realisable value. The basis of determining cost is first-in-first-out or weighted average, and includes direct costs and where applicable, a proportion of manufacturing overheads.

1.18 Financial instruments

Financial instruments are initially measured at fair value when the related contractual rights or obligations arise.

Subsequent to initial recognition these instruments are measured as follows:

- Trade and other receivables are stated at amortised cost less impairment for doubtful debts.
- Cash and cash equivalents are measured at amortised cost.
- Financial liabilities – non-derivative financial liabilities are recognised at amortised cost, comprising net proceeds from original debt less principal payments. Interest is imputed on amounts due to vendors of businesses acquired.
- Derivative instruments, including forward exchange contracts, are measured at fair value.

Hedge accounting transactions are classified into two categories:

- Fair value hedges, which hedge exposure to changes in the fair value of a recognised asset or liability, ie forward exchange contracts in respect of foreign trade liabilities.
- Cash flow hedges, which hedge exposure to variability in future cash flows attributable to forecasted transactions, ie forward exchange contracts in respect of orders placed with foreign suppliers but not yet shipped.

Gains and losses on subsequent measurements are treated as follows:

- Any gains or losses on fair value hedges are recognised in profit for the year.
- Gains or losses on effective cash flow hedges are recognised in other comprehensive income. These gains or losses are transferred to profit in the same period in which the hedged future transaction affects profit.
- The ineffective portion of any cash flow hedge is recognised in profit for the year.
- Gains and losses from a change in the fair value of financial instruments that are not part of a hedging relationship are included in profit for the period in which they arise.

1.19 Impairment

On an annual basis the group reviews all intangible assets carried on the statement of financial position for impairment. Where the recoverable amount of an asset or cash-generating unit is estimated to be lower than its carrying amount, its carrying amount is reduced to its recoverable amount. Impairment losses are charged against profit in the period in which they are identified.

Except in the case of goodwill, where an impairment loss subsequently reverses the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount. Such increases in carrying amounts shall not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised in profit in the period in which such reversal is identified.

1.20 Foreign currency transactions

The functional currency of all the entities in the group is Rand, except for the foreign operations in Botswana, Namibia, USA and Zambia.

Transactions in foreign currencies are initially recorded in the functional currency at the exchange rate ruling at the date of the transaction.

All assets and liabilities denominated in foreign currencies are translated to the functional currency at the exchange rate ruling at the reporting date.

Exchange differences arising on the settlement of transactions at rates different from those at the transaction date, and unrealised exchange differences on unsettled foreign currency monetary assets and liabilities, are recognised in profit for the year.

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to Rand at the appropriate exchange rate at the reporting dates. The income and expenses of foreign operations are translated to Rand at exchange rates at the dates of the transactions.

Foreign currency differences are recognised directly in equity in the foreign currency translation reserve (FCTR). When a foreign operation is disposed of, in part or in full, the relevant amount in the FCTR is transferred to profit or loss.

1.21 Contingencies

After initial recognition, contingent liabilities separately recognised in business combinations are subsequently measured at the higher of:

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

Contingent assets and liabilities that do not form part of a business combination are not recognised, but are disclosed in the notes to the financial statements.

1.22 Segment reporting

Hudaco's businesses have been divided into two primary reportable segments serving distinct markets. The automotive after-market, power tool, marine engine, communication equipment, security and battery businesses supply products into markets influenced to a great degree by consumer spending, whilst the bearings and power transmission and diesel engine businesses supply engineering consumables mainly to mining and manufacturing customers. As a result, Hudaco's segment information differentiates between the consumer-related products and engineering consumables reportable segments. These operating segments are monitored by the individuals as set out on pages 20 and 21.

The measurement policies the group uses for segment reporting under IFRS 8 are the same as those used in its financial statements. Corporate assets which are not directly attributable to the business activities of any operating segment are not allocated to a segment. In the financial period under review, this primarily applies to the group's headquarters.

2. Use of estimates, judgements and assumptions made in the preparation of the financial statements

In preparing the financial statements, management is required to make estimates and assumptions that affect reported income, expenses, assets, liabilities and disclosure of financial instruments and contingent liabilities.

Use of available information and the application of judgement are inherent in the formation of estimates.

Significant estimates and judgements are made in the following areas:

Property, plant and equipment – useful lives and residual values – note 10

Impairment of goodwill – note 12

Fair value, impairment, useful lives and residual values of intangible assets – note 13

Deferred taxation – the extent to which it is probable that taxable profit will be available against which deductible temporary differences can be utilised – note 14

Inventories – allowance for slow-moving and obsolete inventory – note 15

Trade receivables – allowance for doubtful debts – note 16

Fair value of share-based payments – note 17.5

Value of vendor liabilities – amount and timing of contingent consideration – note 18.2

Fair value of financial instruments – note 24

Actual results could differ from the estimates made by management from time to time.

3. Changes in accounting policies

During the year the group did not change any accounting policies or adopt any new accounting standards.

4. Standards, amendments and interpretations to existing standards that are not yet effective and have not been adopted early by the group

At the date of authorisation of these financial statements, certain new standards, amendments and interpretations to existing standards have been published by the IASB but are not yet effective, and have not been adopted early by the group. Management anticipates that all of the relevant pronouncements will be adopted in the group's accounting policies for the first period beginning after the effective date of the pronouncement. Information on new standards, amendments and interpretations that are expected to be relevant to the group's financial statements is provided below. Certain other new standards and interpretations have been issued but are not expected to have any impact on the group's financial statements.

Standard	Details of amendments	Annual periods beginning on or after
IFRS 9 Financial Instruments	• Introduces a new approach to the classification of financial assets, which is driven by the business model in which the asset is held and its cash flow characteristics. • Introduces a single impairment model for all financial instruments, as well as an "expected credit loss" model for the measurement of financial assets. • Contains a new model for hedge accounting that aligns the accounting treatment with the risk management activities of an entity. In addition, enhanced disclosures will provide better information about risk management and the effect of hedge accounting.	1 January 2018
IFRS 15 Revenue from Contracts with Customers	• New guidance that requires recognition of revenue in a manner that depicts the transfer of goods or services to customers at an amount that reflects the consideration the entity expects to be entitled to in exchange for those goods or services. • This standard is not expected to have a material impact on the financial statements of the group.	1 January 2018
IFRS 16 Leases	• Requires lessees to account for leases 'on-balance sheet' by recognising a 'right-of-use' asset and lease liability. • It also changes the definition of a lease, sets requirements on how to account for the asset and liability, provides exemptions for short-term leases and leases of low-value assets, changes the accounting for sale-and-leaseback arrangements, largely retains IAS17's approach to lessor accounting and introduces new disclosure requirements. • The impact of this standard on the financial statements of the group has not yet been assessed.	1 January 2019

R000		2016	2015
5.	**Operating profit**		
	Operating expenses comprise:		
	Staff costs	**960 052**	924 191
	Property rentals under operating leases	**103 343**	90 678
	Depreciation	**43 518**	40 485
	Amortisation	**24 096**	29 049
	Profit on disposal of property, plant and equipment	**(1 912)**	(945)
	Acquisition costs – new businesses	**1 958**	2 789
	Other expenses	**360 372**	371 738
	Allocated to cost of sales	**(132 391)**	(146 201)
		1 359 036	1 311 784
6.	**Finance costs**		
	Interest on amounts due to bankers and other payables	**86 930**	73 053
	Interest imputed on amounts due to vendors of businesses acquired	**13 649**	2 528
		100 579	75 581
7.	**Auditor's remuneration**		
	Audit fees – current year	**8 206**	7 083
	Fees for other services	**227**	35
		8 433	7 118
8.	**Taxation**		
8.1	Taxation comprises		
	South African normal taxation		
	Current year	**175 129**	168 201
	Prior years under provision	**106**	1 539
	Deferred taxation		
	Current year	**(25 617)**	(26 396)
	Prior years over provision	**(2 127)**	(2 211)
	Foreign normal taxation	**122**	442
	Total taxation	**147 613**	141 575
		%	%
8.2	Reconciliation of rate of taxation		
	Normal rate	**28,0**	28,0
	Exempt income	**(1,5)**	(1,7)
	Disallowable expenditure	**0,4**	0,6
	Prior year over provision	**(0,4)**	(0,1)
	Effective rate of taxation	**26,5**	26,8

R000	2016	2015

9. Comparable earnings, headline earnings and basic earnings per share

Calculation of headline earnings		
Profit attributable to equity holders of the parent	**387 916**	368 508
Adjusted for:		
Profit on disposal of plant and equipment	**(1 912)**	(945)
Tax effect	**535**	265
Non-controlling interest	**243**	89
Headline earnings	**386 782**	367 917
Calculation of comparable earnings		
Headline earnings as per above	**386 782**	367 917
Adjusted for:		
Fair value adjustments on amounts due to vendors	**(19 163)**	2 289
Non-controlling interest	**2 874**	(344)
Comparable earnings	**370 493**	369 862

The calculation of comparable, headline and basic earnings per share is based on comparable earnings, headline earnings (both set out above) and earnings attributable to equity holders of the parent (as set out in the statement of comprehensive income), divided by the weighted average of 31 645 703 (2015: 31 645 703) shares in issue during the year, taking account of shares held by a subsidiary.

Comparable earnings and comparable earnings per share is calculated as the directors of the company believe this is a more reliable measure of the ongoing trading performance of the group.

The calculation of diluted earnings per share is based on 31 732 081 (2015: 31 695 567) shares, being the weighted average number of shares in issue of 31 645 703 plus 86 378 (2015: 49 864) deemed free issue shares. This assumes that any bonus due in terms of the share appreciation bonus scheme is settled in shares at the year end price of R108,50 (2015: R107,01) per share. The number of deemed free issue shares is the difference between the number of shares assumed to have been taken up and the number of shares that could have been acquired with such proceeds less the future IFRS 2 charge on the unvested rights, at the average market price per share.

10. Property, plant and equipment

R000	Freehold land	Buildings	Plant	Computers	Motor vehicles	Other assets	2016 Total
Cost							
Opening balance	19 037	72 323	150 485	100 342	110 662	56 509	509 358
Exchange differences			3	1	8	1	13
Acquisition of businesses			7 372	1 455	1 930	2 289	13 046
Additions		745	6 570	10 086	14 853	3 936	36 190
Disposals			(2 219)	(5 110)	(13 180)	(1 653)	(22 162)
Closing balance	19 037	73 068	162 211	106 774	114 273	61 082	536 445
Accumulated depreciation							
Opening balance		9 413	84 445	65 072	56 444	32 868	248 242
Exchange differences					2		2
Acquisition of businesses			4 748	324	538	465	6 075
Depreciation for the year		1 584	10 934	11 043	13 901	6 056	43 518
Disposals			(1 634)	(4 800)	(10 422)	(642)	(17 498)
Closing balance		10 997	98 493	71 639	60 463	38 747	280 339
Net book value	19 037	62 071	63 718	35 135	53 810	22 335	256 106

R000	Freehold land	Buildings	Plant	Computers	Motor vehicles	Other assets	2015 Total
Cost							
Opening balance	19 037	70 947	143 605	87 821	92 386	51 327	465 123
Exchange differences					(84)	(2)	(86)
Acquisition of businesses			1 210	3 738	17 568	713	23 229
Additions		1 376	7 503	9 901	13 455	5 160	37 395
Disposals			(1 833)	(1 118)	(12 663)	(689)	(16 303)
Closing balance	19 037	72 323	150 485	100 342	110 662	56 509	509 358
Accumulated depreciation							
Opening balance		7 829	75 762	53 614	43 097	27 697	207 999
Exchange differences					(11)		(11)
Acquisition of businesses			186	1 920	8 548	225	10 879
Depreciation for the year		1 584	9 589	10 485	13 339	5 488	40 485
Disposals			(1 092)	(947)	(8 529)	(542)	(11 110)
Closing balance		9 413	84 445	65 072	56 444	32 868	248 242
Net book value	19 037	62 910	66 040	35 270	54 218	23 641	261 116
The initial expected useful lives are set within these ranges (years):		20 – 40	25 – 30	1 – 10	3 – 15	5 – 10	

As the residual values and remaining useful lives are re-assessed on an annual basis, there are assets outside these ranges. Details of freehold land and buildings are available at the registered office of the group.

11. Investment in joint venture

Partquip Group (Pty) Ltd, a subsidiary of the group, is a 50% investor with Ironman 4X4 International of Australia in Ironman 4X4 Africa RF (Pty) Ltd, which is not material to the Hudaco group and is the only investment in the group that is accounted for using the equity method in accordance with IFRS. The joint venture is incorporated in South Africa and distributes recreational equipment for 4X4 vehicles as well as suspension systems for recreational, industrial and military vehicles.

	2016	2015
Total net assets of Ironman 4X4 Africa RF (Pty) Ltd	12 327	6 997
Proportion of ownership interests held by the group	50%	50%
Ownership interests held by the group	6 164	3 499
Loan account	536	3 166
Carrying amount of investment in joint venture	6 700	6 665

No dividends were received from Ironman 4X4 Africa RF (Pty) Ltd.

Ironman 4X4 Africa RF (Pty) Ltd is a private company, and therefore no quoted market prices are available for its shares.

R000	2016	2015

12. Goodwill

12.1 Goodwill comprises:

Goodwill at cost	**1 264 825**	1 023 162
Accumulated impairment	**(22 089)**	(22 089)
	1 242 736	1 001 073

12.2 Movement for the year

Balance at beginning of the year	**1 001 073**	730 466
Acquisitions during the year	**241 663**	270 607
	1 242 736	1 001 073
The net book value of goodwill has been allocated to the following cash generating units (CGUs):		
Partquip	**249 747**	249 747
Filter and Hose Solutions	**225 680**	225 680
MiRO	**171 069**	
Global Communications	**127 685**	127 685
Astore Keymak*	**66 973**	66 973
Joseph Grieveson	**55 834**	55 834
Pentagon	**43 088**	43 088
Ambro Steel	**37 370**	37 370
Dosco Precision Hydraulics	**34 937**	34 937
Brewtech Engineering	**33 699**	
Powermite	**26 589**	26 589
Hydraulic Engineering Repair Services	**22 850**	
Gear Pump Manufacturing	**21 011**	21 011
Specialised Battery Systems	**14 955**	14 955
Abes Technoseal	**14 435**	14 435
All-Trade	**14 045**	
Elvey Security Technologies	**12 955**	12 955
Berntel	**11 659**	11 659
Varispeed	**11 586**	11 586
Proof Engineering	**10 483**	10 483
Three-D Agencies	**9 968**	9 968
Sanderson Special Steels	**9 201**	9 201
Deltec	**8 114**	8 114
Other	**8 803**	8 803
	1 242 736	1 001 073

** Astore and Keymak now operate as a single CGU.*

Goodwill arising in business combinations is allocated, at acquisition, to the CGUs acquired and those expected to benefit from that business combination. The group tests goodwill for impairment at least annually by estimating the recoverable amount of any CGU to which goodwill has been allocated. The recoverable amount of all significant amounts of goodwill are estimated by using the higher of the value-in-use method and the fair value less cost to sell. During the current year, all recoverable amounts were based on value in use.

A discounted cash flow valuation model is applied using five year forecasts with terminal values, as all CGUs have an expected life beyond five years. Detailed budgets, prepared by the management of the CGU and approved by the Hudaco board, are used to determine the cash flow for the first year and are the quantification of strategies of the specific CGU. The process ensures that all significant risks and sensitivities are appropriately considered and factored into these forecasts. Key assumptions are based on industry specific performance levels as well as economic indicators approved by the executive and their impact on turnover and operating margins. Currency movements are also an important factor in the ultimate accuracy of forecasts. These assumptions are generally consistent with external sources of information and with past experience of the impact thereof on the group's cash flow.

12. Goodwill continued

Cash flows for the second and third years are forecast by applying individual estimated sustainable levels of growth for the specific businesses, taking into account the drivers of the economic sectors in which they operate and their expected impact on turnover and margins, their business strategies and the risks they face. For the fourth and fifth years and terminal value, cash flows are determined by using estimated sustainable growth levels for CGUs ranging from 5% to 10% and 5% per annum, respectively, which rates are considered reasonable in context of the industries in which they operate. Beyond the short-term, they are derived from the use of a common forecasting process followed across the group.

Discount rates applied to cash flow projections are based on a South African specific weighted average cost of capital (WACC), which takes into account appropriate risk free rates adjusted for market risk, company specific risk, effective rates of taxation, cost of debt and the relevant weighting between debt and equity. The WACC applied to all CGUs is 14,5% (2015: 14,2%). Consideration was given as to whether the factors pertaining to any of the CGUs warranted the use of an adjusted rate, but it was not considered necessary.

No impairment losses were required to be recognised during the current year.

13. Intangible assets

R000	**Customer relationships**	**Trade names**	**Supplier contracts**	**2016 Total**
Cost				
Opening balance	**128 850**	**46 301**	**9 287**	**184 438**
Acquisition of businesses	**15 960**	**7 369**		**23 329**
Closing balance	**144 810**	**53 670**	**9 287**	**207 767**
Accumulated amortisation				
Opening balance	**74 361**	**21 962**	**9 028**	**105 351**
Amortisation for the year	**16 542**	**7 295**	**259**	**24 096**
Closing balance	**90 903**	**29 257**	**9 287**	**129 447**
Accumulated impairment				
Opening and closing balance	**6 083**	**4 416**		**10 499**
Net book value	**47 824**	**19 997**		**67 821**

R000	Customer relationships	Trade names	Supplier contracts	2015 Total
Cost				
Opening balance	83 978	29 653	9 287	122 918
Acquisition of businesses	44 872	16 648		61 520
Closing balance	128 850	46 301	9 287	184 438
Accumulated amortisation				
Opening balance	56 230	12 079	7 993	76 302
Amortisation for the year	18 131	9 883	1 035	29 049
Closing balance	74 361	21 962	9 028	105 351
Accumulated impairment				
Opening and closing balance	6 083	4 416		10 499
Net book value	48 406	19 923	259	68 588
The remaining expected useful lives are set within these ranges (years):	3 – 6	10 – 14	3 – 5	

Intangible assets were acquired as part of the acquisition of businesses. The costs attributable to these assets have been determined by valuation specialists and management, applying recognised valuation techniques and exercising judgement on the same basis as for goodwill, as described in note 12.

R000	2016	2015

14. Deferred taxation

14.1 Deferred taxation comprises temporary differences arising from:

R000	2016	2015
Capital allowances	**(24 113)**	(23 507)
Imputed interest due to vendors	**(8 761)**	(831)
Intangible assets	**(19 191)**	(19 406)
Doubtful debt allowances	**6 724**	6 978
Leave pay and bonus accruals	**39 263**	33 666
Calculated tax loss	**37 367**	20 958
Other	**(4 763)**	(2 446)
Net deferred taxation asset	**26 526**	15 412
Deferred taxation is reflected on the group statement of financial position as follows:		
Deferred tax assets	**37 900**	29 170
Deferred tax liabilities	**(11 374)**	(13 758)
	26 526	15 412

The deferred tax asset has been raised as it is probable that taxable profit will be available against which deductible temporary differences can be utilised.

14.2 Movement for the year

R000	2016	2015
Balance at beginning of the year	**15 412**	840
Arising on acquisitions during the year		
Capital allowances	**353**	(2 450)
Imputed interest due to vendors	**(11 715)**	(1 021)
Intangible assets	**(6 532)**	(17 226)
Doubtful debt allowances	**163**	1 087
Leave pay and bonus accruals	**1 101**	1 442
Other		4 133
Raised (utilised) during the year (including prior years over provision)		
Capital allowances	**(959)**	422
Imputed interest due to vendors	**3 785**	524
Intangible assets	**6 747**	8 132
Doubtful debt allowances	**(417)**	1 823
Leave pay and bonus accruals	**4 496**	3 131
Calculated tax loss	**16 409**	17 959
Other	**(2 317)**	(3 384)
	26 526	15 412

15. Inventories

R000	2016	2015
Merchandise	**1 454 285**	1 311 099
Raw materials and components	**20 179**	18 200
Work in progress	**33 635**	39 364
	1 508 099	1 368 663
Cost of inventory recognised as an expense in cost of sales	**3 403 440**	3 166 459
Inventory that is expected to be sold after more than 12 months	**88 000**	109 000
Write-down of inventory to net realisable value and losses of inventory	**13 705**	9 588
Amounts removed during the year from the cash flow hedging reserve (reducing) increasing the initial cost of inventories	**(3 244)**	662

The group policy is to estimate, at zero net realisable value, the inventory that will eventually be scrapped, as it is rare for price reductions to result in the sale of obsolete inventory.

R000	2016	2015

16. Trade and other receivables

Trade receivables	**931 542**	860 804
Allowance for doubtful receivables	**(28 652)**	(26 750)
Other receivables	**127 254**	114 506
Pre-payments	**15 857**	17 613
Fair value of forward exchange contracts		23 937
	1 046 001	990 110
Balance at beginning of the year	**26 750**	18 021
Additional allowance charged to profit	**11 865**	18 432
Allowance reversed to profit	**(3 353)**	(2 401)
Allowance utilised	**(7 193)**	(8 412)
Acquisitions during the year	**583**	1 110
	28 652	26 750

Receivables are reviewed for impairment on an individual basis and factors considered include the nature and credit quality of counter-parties as well as disputes regarding price, delivery and quality of product.

At year end, trade receivables of R136 million (2015: R122 million) were past due but not impaired, being customers of whom there is no recent history of default and are aged as follows:

Less than 30 days since date due	**51 203**	47 296
Between 31 and 60 days	**37 484**	31 973
Between 61 and 90 days	**11 080**	21 038
More than 90 days	**35 807**	21 618
	135 574	121 925

17. Shareholders' equity

17.1 Authorised share capital

40 000 000 ordinary shares of 10 cents each	**4 000**	4 000

17.2 Issued share capital

34 153 531 ordinary shares	**3 415**	3 415
2 507 828 ordinary shares held by subsidiary company – 7,3%	**(251)**	(251)
Net 31 645 703 ordinary shares	**3 164**	3 164

17.3 Unissued shares

4 003 000 unissued shares have been made available to the employee share incentive scheme although it is not policy to issue new shares to meet the obligations under the scheme (see note 17.5).

17.4 Retained income

Income retained in:		
Company	**174 863**	174 933
Subsidiary companies	**1 765 686**	1 535 971
Joint venture	**5 631**	2 966
	1 946 180	1 713 870

17. Shareholders' equity continued

17.5 Employee share-based remuneration schemes

Senior employees, including executive directors, participate in two equity-settled share-based remuneration schemes. They are the share appreciation bonus scheme and the share matching scheme, in which only executive directors and nominated senior managers participate.

	Number of shares	
000	**2016**	2015
Total specifically authorised to be issued in terms of all schemes	**8 000**	8 000
Shares issued under the now defunct share option scheme	**3 997**	3 997
Shares available to be granted in terms of share appreciation bonus scheme in the future	**4 003**	4 003
Shares required to meet obligations in terms of the share appreciation bonus scheme[1]	**519**	366
	3 484	3 637

(1) The number of shares varies in accordance with the Hudaco share price. This number has been calculated using the share price at year end.

Share appreciation bonus scheme

The following share appreciation bonus rights have been granted in terms of the scheme that was approved by shareholders in May 2006:

	Weighted average strike price in cents		Number of rights (000)	
	2016	2015	**2016**	2015
Rights not taken up at beginning of the year	**9 963**	8 590	**2 688**	2 358
Rights granted during the year	**10 293**	12 524	**787**	710
Forfeited during the year	**(10 104)**	(3 975)	**(209)**	(2)
Rights exercised during the year	**(7 200)**	(6 237)	**(137)**	(378)
Rights not taken up at end of the year	**10 159**	9 963	**3 129**	2 688
Already exercisable	**8 824**	7 650	**501**	364
First exercisable in the financial years ending:				
November 2016		9 528		311
November 2017	**9 490**	9 497	**512**	557
November 2018	**10 372**	10 354	**648**	696
November 2019	**10 551**	10 673	**752**	530
November 2020	**11 326**	12 524	**467**	230
November 2021	**10 293**		**249**	
	10 159	9 963	**3 129**	2 688

Participants in this scheme will receive a bonus, settled in Hudaco shares at market price, equal to the appreciation in the Hudaco share price between the date of grant (strike price) and the date of exercise, multiplied by the number of rights granted. It is Hudaco's policy to acquire these shares on the open market and not to issue new shares. Tranche 1 vests three years after grant, tranche 2 vests four years after grant and tranche 3 vests five years after grant. Each tranche must be taken up within four years of vesting. For executive directors and nominated senior managers, the number of rights that may be taken up in each tranche is subject to performance tests. For rights awarded prior to 2015, the performance test was based on the growth in Hudaco's comparable earnings per share during the period exceeding inflation plus 5%. For rights awarded in 2015 and thereafter there are two performance tests. For full vesting, return on equity from date of the award until vesting date must be at least 18% per annum and comparable earnings per share growth must exceed inflation plus 3%. For the rights awarded in 2015 the two performance measures carry equal weighting. For those awarded in 2016 the weighting is 60% on return on equity and 40% on ceps growth. There are no performance factors for lower level participants.

17. Shareholders' equity continued

Share matching scheme

The following share matching rights have been granted in terms of the scheme that was introduced by the remuneration committee in January 2014.

	Weighted average share price in cents		Number of rights (000)	
	2016	2015	**2016**	2015
Rights not taken up at beginning of the year	**11 747**	10 386	**52**	8
Rights granted during the year	**10 776**	12 001	**138**	44
Rights not taken up at end of the year	**11 045**	11 747	**190**	52

8 168 of these shares are first exercisable in the financial year ending November 2017, 43 848 in the financial year ending November 2018 and the remaining 137 832 in the financial year ending November 2019.

Participants in the scheme will get an equal number of Hudaco shares if they remain in Hudaco's employ and hold on to these shares for three years after the date on which they were acquired.

Cost of share-based payments

The estimated fair value of these rights was calculated at grant date using a modified binomial tree option pricing model with the following inputs:

Share appreciation bonus scheme

Date of grant	15 Feb 08	1 Jul 09	7 Aug 10	13 Jul 11	27 Jul 12	12 Jul 13	25 Jul 14	10 Jul 15	20 Jul 16
Number of rights granted	404 767	578 500	276 333	277 534	405 433	464 250	932 080	710 300	787 420
Rights forfeited	(91 998)	(56 889)	(52 668)	(69 168)	(110 633)	(95 600)	(58 200)	(36 300)	(31 500)
Rights taken up	(307 767)	(465 579)	(163 001)	(117 530)	(19 464)	(22 568)	(4 800)[1]	(4 200)[1]	
Rights still outstanding	5 002	56 032	60 664	90 836	275 336	346 082	869 080	669 800	755 920
Vested rights	5 002	56 032	60 664	90 836	181 632	106 155	4 800	4 200	
Unvested rights					93 704	239 927	864 280	665 600	755 920
Exercise price (R) – strike price (10-day VWAP)	71,45	50,50	68,09	81,05	109,26	90,80	92,04	125,24	102,93
Share price at grant date (R)	72,00	55,00	68,99	80,85	108,49	90,30	91,92	129,63	104,21
Expected volatility (%)[2]	25	28	27	34	25	21	21	21	28
Expected dividend yield (%)	4,0	4,0	6,0	5,4	5,2	4,7	4,6	4,3	4,8
Risk-free rate (%)	8,6	8,6	7,3	7,1	5,9	7,4	7,6	7,8	8,1
Vesting period (years)	3 to 5	3 to 5	3 to 5	3 to 5	3 to 5	3 to 5	3 to 5	3 to 5	3 to 5
Estimated fair value per right (R)	19,83	16,71	12,84	21,66	20,00	18,26	18,96	29,88	29,54

Share matching scheme

Granted during	2014	2015	2016
Number of rights granted	8 168	43 848	137 832
Unvested rights	8 168	43 848	137 832
Share price at grant date (R)	102,79	117,77	109,50
Expected volatility (%)[2]	21	21	29
Expected dividend yield (%)	4,6	4,6	3,7
Risk-free rate (%)	7,1	6,2	8,1
Vesting period (years)	3	3	3
Estimated fair value per right (R)	90,32	103,37	94,17

(1) Rights vest early on death or disability.

(2) Taking into account the expected term of the right, the Hudaco Industries Limited historical weekly volatility information was used to estimate expected future volatility, as there is nothing to indicate that this would not be an appropriate proxy for forecasting volatility.

R000	**2016**	2015
Employee share-based payment expense included in operating profit arising from:		
Share appreciation scheme	**2 705**	10 233
Share matching scheme	**4 757**	1 542
	7 462	11 775

17. Shareholders' equity continued

17.6 Non-distributable reserves

R000	Special reserve account	Cash flow hedging reserve	Foreign currency translation reserve	Equity compensation reserves	BEE transaction share-based payments	Total
Note		24.2.1				
Balance at 30 November 2014	332	(662)	123	28 819	37 326	65 938
Comprehensive income for the year		3 906	(201)			3 705
Increase in equity compensation reserves				5 580		5 580
Balance at 30 November 2015	332	3 244	(78)	34 399	37 326	75 223
Less: shares held by subsidiary company	(41)					(41)
Net balance at 30 November 2015	291	3 244	(78)	34 399	37 326	75 182
Balance at 30 November 2015	**332**	**3 244**	**(78)**	**34 399**	**37 326**	**75 223**
Comprehensive income for the year		**(6 847)**	**(395)**			**(7 242)**
Decrease in equity compensation reserves				**(4 061)**		**(4 061)**
Balance at 30 November 2016	**332**	**(3 603)**	**(473)**	**30 338**	**37 326**	**63 920**
Less: shares held by subsidiary company	**(41)**					**(41)**
Net balance at 30 November 2016	**291**	**(3 603)**	**(473)**	**30 338**	**37 326**	**63 879**

17.7 Non-controlling interest

	Hudaco Trading (Pty) Ltd		**DD Power Holdings (Pty) Ltd**		**Total**	
R000	**2016**	2015	**2016**	2015	**2016**	2015
Proportion of ownership held by non-controlling interests	**15%**	15%	**30%**	30%		
Turnover	**5 522 555**	5 212 945	**235 650**	288 819	**5 758 205**	5 501 764
Profit after tax for the year	**105 731**	65 484	**30 755**	36 097	**136 486**	101 581
Profit allocated to non-controlling interests for the year	**15 860**	9 822	**9 226**	10 829	**25 086**	20 651
Dividends paid to non-controlling interests for the year	**(750)**		**(9 900)**	(3 000)	**(10 650)**	(3 000)
Comprehensive income for the year allocated to non-controlling interests	**14 673**	10 360	**9 207**	10 887	**23 880**	21 247
Accumulated equity allocated to non-controlling interests	**20 656**	6 733	**43 988**	44 681	**64 644**	51 414
Cash flow from operating activities	**644 355**	413 308	**34 230**	(2 119)	**678 585**	411 189
Non-current assets	**3 151 775**	2 625 242	**9 745**	11 006	**3 161 520**	2 636 248
Current assets	**2 357 528**	2 275 953	**158 978**	180 855	**2 516 506**	2 456 808
Non-current liabilities	**863 767**	3 141 874	**940**	846	**864 707**	3 142 720
Current liabilities	**4 507 841**	2 126 285	**17 641**	42 081	**4 525 482**	2 168 366

Both entities are headquartered in Gauteng and operate mainly throughout South Africa.

R000	2016	2015

18. Non-current liabilities

18.1 Amounts due to bankers

Unsecured borrowings on a R600 million evergreen revolving credit facility from FirstRand Bank Limited and The Standard Bank of South Africa Limited (50% each). The FirstRand Bank portion bears interest at a rate of JIBAR plus 1,44% and the Standard Bank portion JIBAR plus 1,60%. The banks have the right to call it up on 367 days' notice. The primary financial covenants are that the interest cover ratio shall exceed 4:1 and the net debt to EBITDA ratio shall not exceed 2,5:1.		
– FirstRand Bank Limited	**235 000**	300 000
– The Standard Bank of South Africa Limited	**15 000**	300 000
Unsecured borrowings on a R500 million evergreen revolving credit facility from Absa Bank Limited. The facility bears interest at a rate of JIBAR plus 1,44% and the bank has the right to call it up on 367 days' notice. The primary financial covenants are that the interest cover ratio shall exceed 4:1 and the net debt to EBITDA ratio shall not exceed 2,5:1.	**460 000**	200 000
	710 000	800 000

18.2 Amounts due to vendors of businesses acquired

Estimated amount due to the vendors of MiRO acquired in 2016. The amount includes imputed interest at 8,5% per annum. The amount finally payable (maximum R247,2 million) is subject to adjustment based on earnings of the business, up to April 2019	**155 524**	
Estimated amount due to the vendors of Hydraulic Engineering Repair Services acquired in 2016. The amount includes imputed interest at 7,8% per annum. The amount finally payable (maximum R66,7 million) is subject to adjustment based on earnings of the business, up to November 2017	**38 025**	
Estimated amount due to the vendors of Brewtech Engineering acquired in 2016. The amount includes imputed interest at 8,6% per annum. The amount finally payable (maximum R40,5 million) is subject to adjustment based on earnings of the business, up to May 2019	**21 268**	
Estimated amount due to the vendors of All-Trade acquired in 2016. The amount includes imputed interest at 7,8% per annum. The amount finally payable (maximum R17,0 million) is subject to adjustment based on earnings of the business, up to December 2017	**3 554**	
Estimated amount due to the vendors of Sanderson Special Steels acquired in 2015. The amount includes imputed interest at 8,0% per annum. The amount finally payable (maximum R23,2 million) is subject to adjustment based on earnings of the business, up to February 2017	**1 203**	15 552
Amounts due to the vendors of Berntel acquired in 2015	**4 306**	8 497
Amounts due to the vendors of Specialised Battery Systems acquired in 2013		13 772
Amounts due to the vendors of Three-D Agencies acquired in 2013		1 732
Total interest-bearing liabilities	**223 880**	39 553
Less: payable within 12 months	**75 889**	22 421
	147 991	17 132

These liabilities are estimated based on available information. Any adjustment is debited or credited to profit when the adjustment is determined.

R000	2016	2015

19. Trade and other payables

Trade payables	**615 268**	536 774
Fair value of forward exchange contracts	**17 792**	
Other payables	**264 875**	227 623
	897 935	764 397

Included in other payables are payroll and other accruals.

20. Acquisition of businesses

R000	HERS	All-Trade	MiRO	Brewtech Engineering	Total 2016	Total 2015
Effective date of control	1 Dec 15	1 Jan 16	1 May 16	1 Jun 16		
Fair value of assets acquired:						
Plant and equipment	2 527	681	2 971	792	**6 971**	12 351
Investment in joint venture						6 171
Goodwill	22 850	14 045	171 069	33 699	**241 663**	270 607
Intangible assets	4 976	1 643	11 064	5 646	**23 329**	61 520
Bank balances (overdraft)	9 194	2 480	(8 855)	1 634	**4 453**	110 449
Inventories	17 038	3 463	50 423	7 600	**78 524**	142 101
Trade and other receivables	20 967	3 068	24 011	8 470	**56 516**	128 325
Trade and other payables	(9 210)	(1 178)	(16 550)	(5 416)	**(32 354)**	(118 596)
Taxation						(17 686)
Deferred taxation	(1 687)	(705)	(11 557)	(2 681)	**(16 630)**	(14 035)
Net operating assets acquired	66 655	23 497	222 576	49 744	**362 472**	581 207
Bank (balances) overdraft assumed	(9 194)	(2 480)	8 855	(1 634)	**(4 453)**	(110 449)
Balance owed to vendors at acquisition date	(33 400)	(7 481)	(148 019)	(20 378)	**(209 278)**	(22 824)
Net cash outflow on acquisitions	24 061	13 536	83 412	27 732	**148 741**	447 934

Profit after tax since acquisition date included in the consolidated results for the year	**29 037**	88 613
Turnover since acquisition date included in the consolidated results for the year	**408 116**	681 999
Group profit after tax had the business combinations been included for the entire year	**416 190**	392 461
Group turnover had the business combinations been included for the entire year	**5 686 026**	5 270 316

21. Dividends

Dividends paid to equity holders of the parent were:		
Dividend number 58 of 345 cents per share declared on 28 January 2016	**117 830**	105 876
The record date was 4 March 2016 and the dividend was paid on 7 March 2016		
Dividend number 59 of 170 cents per share declared on 30 June 2016	**58 060**	61 476
The record date was 12 August 2016 and the dividend was paid on 15 August 2016		
Dividends paid to subsidiary company	**(12 915)**	(12 288)
	162 975	155 064

On 2 February 2017, the directors declared dividend number 60 of 355 cents per share, being the final dividend in respect of the year ended 30 November 2016. The record date will be 3 March 2017 and the dividend will be paid on 6 March 2017. This dividend has not been included as a liability in these financial statements.

R000	2016	2015

22. Notes to the statement of cash flows

22.1 Decrease (increase) in working capital

R000	2016	2015
Increase in inventories	**(60 912)**	(85 455)
Decrease (increase) in trade and other receivables	**625**	(6 266)
Increase (decrease) in trade and other payables	**101 184**	(64 817)
	40 897	(156 538)

22.2 Taxation paid

R000	2016	2015
Net amounts paid in advance at beginning of the year	**3 400**	5 567
Current tax charge	**(175 129)**	(168 201)
Prior year under provision	**(106)**	(1 539)
Foreign tax charge	**(122)**	(442)
Acquired during the year		(17 686)
Net amounts paid in advance at end of the year	**(2 207)**	(3 400)
Tax paid excluding tax settlement	**(174 164)**	(185 701)
Tax settlement paid during the year		(192 000)
	(174 164)	(377 701)

22.3 Payments to vendors of businesses acquired

R000	2016	2015
Amounts owed at beginning of the year	**(39 553)**	(29 669)
Interest imputed on amounts owed	**(13 649)**	(2 528)
Acquisitions during the year	**(209 278)**	(22 824)
Adjustment to purchase price credited (debited) to statement of income	**19 163**	(2 289)
Amounts owed at end of the year	**223 880**	39 553
	(19 437)	(17 757)

22.4 Finance costs paid

R000	2016	2015
Finance costs	**(100 579)**	(75 581)
Imputed on amounts due to vendors of businesses acquired	**13 649**	2 528
	(86 930)	(73 053)

22.5 Dividends paid

R000	2016	2015
To equity holders of the parent	**(162 975)**	(155 064)
To non-controlling shareholders	**(10 650)**	(3 000)
	(173 625)	(158 064)

22.6 Net bank overdraft

R000	2016	2015
Bank deposits and balances	**47 203**	39 058
Bank overdraft	**(242 184)**	(254 972)
	(194 981)	(215 914)

R000	2016	2015

23. Commitments

23.1 Operating lease arrangements

The group has entered into numerous operating leases in respect of fixed property used for warehousing, offices and branch trading facilities. The leases generally have an initial three to five-year term with options to renew at market-related rentals. Annual escalations ranging from 4% to 9% are common to all leases. No leases contain contingent rent provisions or covenants.

At the reporting date the group had outstanding commitments under these operating leases in respect of fixed properties which fall due as follows:

	2016	2015
Within one year	**90 341**	84 337
Payable in second to fifth years	**119 264**	154 621
Payable thereafter		5 974
	209 605	244 932

23.2 Property, plant and equipment

The group has budgeted to spend R60 million to acquire property, plant and equipment in 2017, none of which is committed or contracted for. Total capital expenditure will be financed by net cash flow from operations and the utilisation of unutilised borrowing facilities.

23.3 Acquisitions

After year end the group acquired the businesses of SS Telecoms and Commercial ICT for considerations totalling a maximum of R111 million. Refer note 26.

24. Financial instruments

Details of the group's financial instruments are set out below:

24.1 Summary of financial instruments

24.1.1 Carrying value of financial instruments

	2016	2015
Financial assets by class:		
Trade receivables	**902 890**	834 054
Other receivables (excluding indirect taxes)	**118 271**	101 061
Fair value of forward exchange contracts		23 937
Bank deposits and balances	**47 203**	39 058
	1 068 364	998 110
Financial assets by category:		
Loans and receivables at amortised cost	**1 068 364**	974 173
Derivatives used for hedging at fair value		23 937
	1 068 364	998 110
Financial liabilities by class:		
Amounts due to vendors of businesses acquired	**223 880**	39 553
Amounts due to bankers	**710 000**	800 000
Bank overdraft	**242 184**	254 972
Trade payables	**615 268**	536 774
Fair value of forward exchange contracts	**17 792**	
Other payables (excluding payroll accruals and indirect taxes)	**141 121**	120 443
	1 950 245	1 751 742
Financial liabilities by category:		
Financial liabilities at amortised cost	**1 932 453**	1 751 742
Derivatives used for hedging at fair value	**17 792**	
	1 950 245	1 751 742

Only forward exchange contracts are recognised at fair value in the statement of financial position. The fair value is indirectly derived from prices in active markets for similar liabilities, which means it is classified as a level 2 fair value measurement.

R000	2016	2015

24. Financial instruments continued

24.1 Summary of financial instruments continued

24.1.2 Fair value of financial instruments

	2016	2015
Financial assets by class:		
Trade receivables	**902 890**	834 054
Other receivables (excluding indirect taxes)	**118 271**	101 061
Fair value of forward exchange contracts		23 937
Bank deposits and balances	**47 203**	39 058
	1 068 364	998 110
Financial liabilities by class:		
Amounts due to vendors of businesses acquired	**223 880**	39 553
Amounts due to bankers	**710 000**	800 000
Bank overdraft	**242 184**	254 972
Trade payables	**615 268**	536 774
Fair value of forward exchange contracts	**17 792**	
Other payables (excluding payroll accruals and indirect taxes)	**141 121**	120 443
	1 950 245	1 751 742

All financial instruments are carried at amounts that approximate fair value. The fair values for bank deposits and balances, receivables, payables, forward exchange contracts and bank overdraft approximate their carrying values due to the short-term nature of these instruments. The fair values have been determined by using available market information and appropriate valuation methodologies.

24.2 Market risk

24.2.1 Foreign currency risk

The group imports more than 65% of its inventories and consequently has a significant exposure to currency risk. Group policy is to take forward cover on all foreign currency liabilities (which effectively changes them from foreign to local currency liabilities) and on a portion (determined from time to time and generally between 20% and 30%) of orders placed but not yet shipped. Order lead times vary between a few days and 12 months. The objective is to have forward cover in place well before goods are shipped.

Fair value hedges – during the year the group had entered into various forward exchange contracts to cover foreign currency liabilities. The cost of these fair value hedges amounted to R33,6 million (2015: R25,3 million).

Cash flow hedges – at 30 November 2016 the group had entered into the following forward exchange contracts relating to forecast purchase transactions, ie orders placed on suppliers but not yet shipped. These contracts for the purchase of foreign currency will be utilised for settlement of shipments received during the next two months:

	Year end spot rate	Foreign amount 000	Contract rate	Rand equivalent R000
Japanese Yen	8,13	181 029	7,39	24 497
US Dollar	14,02	4 483	14,33	64 249
Pound Sterling	17,57	82	17,26	1 416
Euro	14,90	2 655	15,13	40 174
Total cost of contracts				130 336
Fair value – Rand equivalent of the above contracts at year end spot rates				126 101
Loss recognised directly in equity on import orders				4 235
Attributable to non-controlling shareholders				632
Attributable to equity holders of the parent (note 17.6)*				3 603

* *To be classified to profit or loss in subsequent accounting periods.*

Hudaco's central treasury is responsible for the management of foreign currency exposure throughout the group. This is done within clear guidelines set by the board, and exposure and limits are reviewed at quarterly board meetings. There has been no change during the year to the group's approach to managing foreign currency risk.

24. Financial instruments continued

24.2 Market risk continued

24.2.2 Interest rate risk

The group uses bank finance and has been reluctant to fix interest rates for extended periods on borrowings that finance working capital.

The interest rate profile of non-current borrowings is as follows:

	Year of repayment	Interest rate %	2016 R000	2015 R000
Amounts due to bankers	2018	JIBAR plus premium	**710 000**	800 000
Amounts due to vendors of businesses acquired				
– MiRO	2017 – 2019	8,5	**155 524**	
– Hydraulic Engineering Repair Services	2017	7,8	**38 025**	
– Brewtech	2017 – 2019	8,6	**21 268**	
– Berntel	2016 – 2017	8,0	**4 306**	8 497
– All-Trade	2017 – 2018	7,8	**3 554**	
– Sanderson Special Steels	2016 – 2017	8,0	**1 203**	15 552
– Specialised Battery Systems	2016	8,5		13 772
– Three-D Agencies	2016	4,7		1 732

A change of 1% in the interest rate charged on non-current borrowings will affect profit after tax by approximately R6,2 million (2015: R5,8 million) per year and profit attributable to equity holders of the parent by R5,3 million (2015: R4,9 million).

24.3 Credit risk

Credit risk is present in trade receivables and short-term cash investments.

At group level trade receivables consist of a large, widely-spread customer base with no significant concentration of risk to any one customer or industry. Each business in the group is responsible for the management of credit risk in receivables and does so through ongoing credit evaluations and credit control policies and procedures. Management does not consider there to be any material credit risk exposure that is not already covered by an impairment for doubtful debts.

It is group policy to deposit short-term cash investments with major banks, within limits approved by the board, where security rather than yield is the overriding consideration.

The maximum credit risk (disregarding collateral held) to which the group is exposed is as follows:

R000	**2016**	2015
Trade receivables	**902 890**	834 054
Other receivables (excluding indirect taxes)	**118 271**	101 061
Bank deposits and balances	**47 203**	39 058
	1 068 364	974 173

24. Financial instruments continued

24.4 Liquidity risk

The group manages liquidity risk by monitoring forecast cash flows and ensuring that adequate unutilised borrowing facilities are maintained. Unutilised facilities plus available cash resources at 30 November 2016 were R691 million.

There is no restriction on borrowing powers in terms of the memorandum of incorporation and at 30 November 2016 the group's banking facilities substantially exceeded its forecast requirements for the forthcoming year.

The maturity profile of financial liabilities is as follows:

R000	Total owing 2016	Repayable during the year ending 30 November 2017	Repayable during the year ending 30 November 2018 to 2019
Amounts due bankers	**710 000**		**710 000**
Amounts due to vendors of businesses acquired	**223 880**	**75 889**	**147 991**
Bank overdraft	**242 184**	**242 184**	
Trade payables	**615 268**	**615 268**	
Other payables (excluding payroll accruals and indirect taxes)	**141 121**	**141 121**	

24.5 Fair value of financial instruments

The (loss) profit arising on the fair value adjustment on all forward exchange contracts is set out below:

R000	2016	2015
Cash flow hedges (note 24.2.1)	**(4 235)**	3 244
Fair value hedges (on contracts of R559 million at year end spot rates)	**(13 557)**	20 693
	(17 792)	23 937

The book value of all non-derivative financial instruments approximates their fair value at 30 November 2016.

24.6 Capital management

The group seeks to ensure that it and each separate entity has sufficient capital to support its activities and its medium-term growth objectives.

In setting the ideal mix between debt and equity, the group seeks to optimise its return on shareholders' equity while maintaining prudent financial gearing. Generally, the objective is to operate with net debt not exceeding 2,5 times EBITDA. In 2016 it was 1,2 times.

Excess capital will be returned to shareholders in the form of special dividends when appropriate.

In setting the maximum amount of unsubordinated debt the group would carry, the group's objective would also be to have net interest covered at least five times by operating profit; net interest being interest paid on debt less interest received. In 2016 it was 7,3 times.

25. Retirement benefits

It is the policy of the group to provide for employees' retirement benefits by contributing to separate, defined contribution pension or provident plans which are independent entities managed by trustees and subject to the Pension Funds Act, 1956. Membership is of umbrella funds administered by Old Mutual. There are some businesses acquired by the group whose employees remain on their pre-acquisition retirement funds.

Contributions to retirement funding during the year amounted to R50,0 million (2015: R46,2 million). All permanent employees are required to become members of one of these plans unless they are obliged by legislation to be members of various industry funds.

The group does not contribute to post-retirement medical costs for current or future pensioners.

26. Events after reporting date

On 1 December 2016 Hudaco acquired the trading assets and liabilities of two separate businesses, SS Telecoms and Commercial ICT. SS Telecoms is a voice and data solution provider for businesses, specialising in PBX, communication management software, voice recording, handsets and telephone management and mobile technology solutions. Commercial ICT is a small core IT systems and infrastructure provider, with exclusive agencies for communication products sold to the security industry.

Both businesses were acquired on earn-outs and the financial considerations are dependent on the average profits for the three years ending 30 November 2019. The maximum considerations are R103 million for SS Telecoms and R8 million for Commercial ICT.

Hudaco constantly seeks out opportunities to expand operations and these businesses were acquired in order to increase the revenue earning capacity of the group.

The businesses were valued using a price-earnings multiple and the excess of the consideration paid over the net assets acquired is attributable to goodwill.

The estimated fair values of assets acquired, subject to a final purchase price allocation are:

R000	SS Telecoms	Commercial ICT	Total
Plant and equipment	863	355	**1 218**
Goodwill	43 957	6 246	**50 203**
Intangible assets	6 893	69	**6 962**
Cash and cash equivalents	767	(125)	**642**
Inventories	6 595	78	**6 673**
Trade and other receivables	4 922	1 127	**6 049**
Trade and other payables	(5 915)	(1 001)	**(6 916)**
Deferred taxation	(3 269)	(386)	**(3 655)**
Net operating assets acquired	54 813	6 363	**61 176**

Had these businesses been acquired at the beginning of the year, additional turnover of R53 million and loss after amortisation of intangible assets, interest and tax of R3 million would have been included in the consolidated statement of comprehensive income. The consolidated turnover, including these results, would have been R5 587 million and the profit after tax R407 million.

27. Directors' interests and remuneration

27.1 Interests of directors in the share capital of the company as at 30 November 2016

The total beneficial interests of directors in the shares of the company are:

	Direct Share register (own name)		Indirect Held by associates	
	2016	2015	**2016**	2015
RT Vice	**4 000**	4 000		
SJ Connelly	**274 139**	274 139	**1 680**	1 680
CV Amoils	**40 223**	19 323	**7 500**	7 500
GR Dunford	**141 559**	107 127	**970 812**	970 812
	459 921	404 589	**979 992**	979 992

The shareholdings above have not changed between 30 November 2016 and the date of the notice of the annual general meeting.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS continued

27. Directors' interests and remuneration continued

27.2 Directors' interests in the share appreciation bonus scheme and the share matching scheme

27.2.1 The directors have the following rights in terms of the share appreciation bonus scheme:

	Outstanding rights beginning of year	Strike price R	Granted during the year	Taken up during the year	Outstanding rights end of year	Date granted	Number of tranches	Date benefit to be determined	Gains on rights taken up[1] R000
2016									
CV Amoils	**277 033**		**54 960**		**331 993**				
	43 333	**50,50**			**43 333**	**01 Jul 09**	**3**	**Jul 12 – Jul 18**	
	30 000	**68,09**			**30 000**	**07 Aug 10**	**3**	**Aug 13 – Aug 19**	
	27 000	**81,05**			**27 000**	**13 Jul 11**	**3**	**Jul 14 – Jul 20**	
	30 000	**109,26**			**30 000**	**27 Jul 12**	**3**	**Jul 15 – Jul 21**	
	27 000	**90,80**			**27 000**	**12 Jul 13**	**3**	**Jul 16 – Jul 22**	
	74 100	**92,04**			**74 100**	**25 Jul 14**	**3**	**Jul 17 – Jul 23**	
	45 600	**125,24**			**45 600**	**10 Jul 15**	**3**	**Jul 18 – Jul 24**	
		102,93	**54 960**		**54 960**	**20 Jul 16**	**3**	**Jul 19 – Jul 25**	
GR Dunford	**368 126**		**115 860**		**483 986**				
	960	**50,50**			**960**	**01 Jul 09**	**3**	**Jul 12 – Jul 18**	
	8 666	**81,05**			**8 666**	**13 Jul 11**	**3**	**Jul 14 – Jul 20**	
	32 000	**109,26**			**32 000**	**27 Jul 12**	**3**	**Jul 15 – Jul 21**	
	28 000	**90,80**			**28 000**	**12 Jul 13**	**3**	**Jul 16 – Jul 22**	
	208 500	**92,04**			**208 500**	**25 Jul 14**	**3**	**Jul 17 – Jul 23**	
	90 000	**125,24**			**90 000**	**10 Jul 15**	**3**	**Jul 18 – Jul 24**	
		102,93	**115 860**		**115 860**	**20 Jul 16**	**3**	**Jul 19 – Jul 25**	
	645 159		**170 820**		**815 979**				
2015									
CV Amoils	253 100		45 600	21 667	277 033				1 731
	65 000	50,50		21 667	43 333	01 Jul 09	3	Jul 12 – Jul 18	1 731
	30 000	68,09			30 000	07 Aug 10	3	Aug 13 – Aug 19	
	27 000	81,05			27 000	13 Jul 11	3	Jul 14 – Jul 20	
	30 000	109,26			30 000	27 Jul 12	3	Jul 15 – Jul 21	
	27 000	90,80			27 000	12 Jul 13	3	Jul 16 – Jul 22	
	74 100	92,04			74 100	25 Jul 14	3	Jul 17 – Jul 23	
		125,24	45 600		45 600	10 Jul 15	3	Jul 18 – Jul 24	
GR Dunford	406 666		90 000	128 540	368 126				8 551
	21 666	39,75		21 666		06 Jul 06	3	Jul 09 – Jul 15	1 922
	20 000	71,45		20 000		15 Feb 08	3	Feb 11 – Feb 17	1 143
	45 000	50,50		44 040	960	01 Jul 09	3	Jul 12 – Jul 18	3 551
	25 500	68,09		25 500		07 Aug 10	3	Aug 13 – Aug 19	1 070
	26 000	81,05		17 334	8 666	13 Jul 11	3	Jul 14 – Jul 20	865
	32 000	109,26			32 000	27 Jul 12	3	Jul 15 – Jul 21	
	28 000	90,80			28 000	12 Jul 13	3	Jul 16 – Jul 22	
	208 500	92,04			208 500	25 Jul 14	3	Jul 17 – Jul 23	
		125,24	90 000		90 000	10 Jul 15	3	Jul 18 – Jul 24	
	659 766		135 600	150 207	645 159				10 282

Participants in the scheme will receive a bonus, settled in Hudaco shares, equal to the appreciation in the Hudaco share price between the date of grant (strike price) and the date exercised, multiplied by the number of rights granted. It is Hudaco's policy to acquire these shares on the open market and not to issue new shares. Tranche 1 vests three years after grant, tranche 2 vests four years after grant and tranche 3 vests five years after grant. Each tranche must be taken up within four years of vesting. For executive directors and nominated senior managers, the number of rights that may be taken up in each tranche is subject to performance tests. For rights awarded prior to 2015, the performance test was based on the growth in Hudaco's comparable earnings per share during the period exceeding inflation plus 5%. For rights awarded in 2015 and thereafter there are two performance tests. For full vesting, return on equity from date of the award until vesting date must be at least 18% per annum and comparable earnings per share growth must exceed inflation plus 3%. For the rights awarded in 2015 the two performance measures carry equal weighting. For those awarded in 2016 the weighting is 60% on return on equity and 40% on ceps growth.

(1) This represents the difference between the market price and the strike price on the date the rights were taken up.

27. Directors' interests and remuneration continued

27.2.2 The directors have the following rights in terms of the share matching scheme:

000	Balance at the beginning of the year	Granted during the year	Balance at the end of the year
CV Amoils	12	33	45
GR Dunford	11	49	60
	23	82	105

Participants in the scheme will receive an equal number of Hudaco shares if they remain in the employ of Hudaco and hold on to these shares for three years after the date they were acquired. The rights granted to the directors during 2016 required a qualifying investment of 63% as a specific once off incentive.

27.3 Directors' remuneration

Non-executive directors R000	Base fee*	Bonus on share appreciation rights exercised	Consulting fee	Total remuneration
2016				
RT Vice	**900**			**900**
SJ Connelly	**356**			**356**
SG Morris	**562**			**562**
N Mandindi	**451**			**451**
D Naidoo	**486**			**486**
	2 755			**2 755**
2015				
RT Vice	840			840
PC Baloyi(3)	148			148
SJ Connelly	279	9 362(2)	374	10 015
SG Morris	558			558
N Mandindi(4)	170			170
D Naidoo	449			449
	2 444	9 362	374	12 180

** Paid by Hudaco Industries Ltd*

Executive directors paid by subsidiaries for managerial services R000	Fixed remune-ration	Retirement fund contri-butions	Other benefits	Performance related remune-ration	Total before share-based payments	Share-based payments(1)	Total remune-ration	Bonus on share appreciation rights exercised(2)
2016								
CV Amoils	**2 653**	**300**	**197**	**2 400**	**5 550**	**1 155**	**6 705**	
GR Dunford	**3 985**	**502**	**185**	**3 900**	**8 572**	**1 414**	**9 986**	
	6 638	**802**	**382**	**6 300**	**14 122**	**2 569**	**16 691**	
2015								
CV Amoils	2 479	282	202	4 230	7 193	1 243	8 436	1 731
GR Dunford	3 625	459	150	6 850	11 084	1 862	12 946	8 551
	6 104	741	352	11 080	18 277	3 105	21 382	10 282

(1) The fair value of share appreciation bonus rights granted is the annual expense in terms of IFRS 2
(2) This represents the difference between the market price and the strike price on the date the rights were exercised. The fair value of the rights at grant date has been expensed in prior years in terms of IFRS 2 so there is an element of double counting. The rights exercised by SJ Connelly were awarded while he was the chief executive and he was entitled to exercise them up to one year after retirement.
(3) Resigned on 19 March 2015.
(4) Appointed on 1 June 2015.

28. Related party transactions

Related parties are those that control or have a significant influence over the group (including holding companies, major investors and key management personnel) and parties that are controlled or significantly influenced by the group (including subsidiaries, joint ventures, associates and retirement benefit plans).

Hudaco has no holding company, nor is there a major shareholder that has significant influence over the group. Group companies have entered into transactions in the ordinary course of business with certain financial institutions that are also shareholders, or their affiliates. In the main, these transactions relate to property leases and financial services. All such transactions have been concluded under terms that are consistent with those entered into with third parties.

Hudaco has no material associates or joint venture partners. The company and its subsidiaries do have dealings with each other but these are eliminated on consolidation and are not dealt with in this note. A list of principal subsidiaries is provided on page 106.

Details of transactions between the group and other related parties are disclosed below.

Key management personnel are defined as executive directors of the company and members of the executive committee and include partners and children.

Hudaco does not have prescribed officers as defined in Regulation 38 of the Companies Regulations, 2011.

R000	2016	2015
Compensation of key management personnel		
Short-term employee benefits	**32 720**	39 526
Share-based payments[1]	**5 351**	5 521
	38 071	45 047

(1) The fair value of the share appreciation rights granted is the annual expense in terms of IFRS 2.

In addition to the above, key management personnel have exercised share appreciation rights during the year with a difference between the market price at exercise date and the strike price amounting to R2,5 million (2015: R18,3 million). The fair value at grant date of these rights has been expensed in terms of IFRS 2 in prior years so there is an element of double counting.

Directors

Details of directors' remuneration, share-based payments and shareholdings are set out in note 27.

GR Dunford, chief executive of Hudaco, is a 82% shareholder of the landlord of premises occupied by Bauer, Dosco Precision Hydraulics, Gear Pump Manufacturing and Joseph Grieveson. Rental paid in respect of Bauer amounted to R1 809 805 (2015: R1 660 372). This lease expired on 31 December 2016 and was renewed for another three year period. Rental paid in respect of Dosco Precision Hydraulics amounted to R1 383 658 (2015: R1 281 165), Gear Pump Manufacturing amounted to R1 532 540 (2015: R1 428 173) and Joseph Grieveson amounted to R2 463 110 (2015: R2 280 658). These leases expire on 30 March 2019, 30 June 2018 and 30 June 2017, respectively.

The terms of all the above lease agreements are consistent with those entered into with third parties.

29. Segment information

R million	Group 2016	Group 2015	Head office, shared services and eliminations 2016	Head office, shared services and eliminations 2015	Consumer-related-products 2016	Consumer-related-products 2015	Engineering consumables 2016	Engineering consumables 2015
Statement of net income								
Turnover	**5 534**	5 230	**(7)**	(8)	**2 802**	2 603	**2 739**	2 635
– Ongoing operations	**5 077**	5 216	**(7)**	(8)	**2 553**	2 603	**2 531**	2 621
– Operations acquired after Dec 2014	**457**	14			**249**		**208**	14
EBITDA	**705**	673	**(21)**	(33)	**435**	412	**291**	294
Depreciation less recoupments	**42**	39		2	**15**	14	**27**	23
Amortisation of intangible assets	**24**	29			**15**	18	**9**	11
Operating profit	**639**	605	**(21)**	(35)	**405**	380	**255**	260
– Ongoing operations	**573**	604	**(21)**	(35)	**372**	380	**222**	259
– Operations acquired after Dec 2014	**66**	1			**33**		**33**	1
Fair value adjustments to amounts due to vendors	**19**	(2)			**4**	(2)	**15**	
Profit before interest	**658**	603	**(21)**	(35)	**409**	378	**270**	260
Statement of financial position								
Property, plant and equipment	**256**	261			**59**	55	**197**	206
Investment in joint venture	**7**	7			**7**	7		
Goodwill	**1 243**	1 001			**654**	469	**589**	532
Intangible assets	**68**	69			**47**	50	**21**	19
Deferred taxation – net	**26**	15	**39**	17	**(11)**	2	**(2)**	(4)
Inventories	**1 508**	1 369			**703**	614	**805**	755
Trade and other receivables	**1 046**	990	**36**	34	**527**	473	**483**	483
Trade and other payables	**(898)**	(764)	**(37)**	(10)	**(507)**	(411)	**(354)**	(343)
Taxation	**3**	3	**88**	65	**(54)**	(40)	**(31)**	(22)
Net operating assets	**3 259**	2 951	**126**	106	**1 425**	1 219	**1 708**	1 626
Additional information								
Average net operating assets	**3 141**	2 708	**72**	(22)	**1 337**	1 072	**1 732**	1 658
Capital expenditure	**36**	37			**17**	16	**19**	21
Operating profit margin (%)	**11,6**	11,6			**14,5**	14,6	**9,3**	9,9
Return on average net operating assets (%)	**20,4**	22,4			**30,3**	35,4	**14,7**	15,7
Number of permanent employees	**3 096**	2 980	**24**	22	**1 004**	865	**2 068**	2 093

No secondary segment information has been prepared as revenue and assets outside South Africa are less than 10% of the group total.

The performance of operating segments is measured at operating profit level. Management of interest is centralised.

COMPANY FINANCIAL STATEMENTS

Hudaco Industries Limited

STATEMENT OF FINANCIAL POSITION
at 30 November 2016

R000	2016	2015
Assets		
Non-current assets		
Interest in subsidiaries (note 1)	**231 364**	231 180
Current assets		
Receivables		256
Total assets	**231 364**	231 436
Equity and liabilities		
Shareholders' equity	**230 143**	230 213
Current liabilities		
Payables and taxation	**1 221**	1 223
Total equity and liabilities	**231 364**	231 436

STATEMENT OF COMPREHENSIVE INCOME
for the year ended 30 November 2016

R000	2016	2015
Dividends received from subsidiaries		
– Hudaco Investment Company Ltd	**175 000**	175 000
– Hudaco Trading (Pty) Ltd	**4 250**	
Operating costs	**(3 430)**	(3 186)
Profit after taxation	**175 820**	171 814

STATEMENT OF CHANGES IN EQUITY
for the year ended 30 November 2016

R000	Share capital	Share premium	Special reserve account	Retained income	Share-holders' equity
Balance at 30 November 2014	3 415	51 533	332	170 471	225 751
Profit after taxation				171 814	171 814
Dividends to shareholders				(155 064)	(155 064)
Dividends to subsidiary				(12 288)	(12 288)
Balance at 30 November 2015	**3 415**	**51 533**	**332**	**174 933**	**230 213**
Profit after taxation				**175 820**	**175 820**
Dividends to shareholders				**(162 975)**	**(162 975)**
Dividends to subsidiary				**(12 915)**	**(12 915)**
Balance at 30 November 2016	**3 415**	**51 533**	**332**	**174 863**	**230 143**

Hudaco Industries Limited

STATEMENT OF CASH FLOWS

for the year ended 30 November 2016

R000	2016	2015
Cash generated from operating activities		
Dividends received	**179 250**	175 000
Operating costs paid	**(3 430)**	(3 186)
Decrease in working capital	**254**	13
Cash flow from operations	**176 074**	171 827
Dividends paid	**(175 890)**	(167 352)
Net cash retained	**184**	4 475
Cash applied to investment activities		
Increase in loans to subsidiary companies	**(184)**	(4 475)
Net cash applied	**0**	0

NOTES TO THE COMPANY FINANCIAL STATEMENTS

for the year ended 30 November 2016

R000	2016	2015

1. Interest in subsidiaries

Shares at cost less amounts written off	**92 275**	92 275
Loans to subsidiaries	**139 089**	138 905
	231 364	231 180

These loans are unsecured, interest-free and repayable at the discretion of the subsidiary.

The investment in a subsidiary company is carried at cost less impairment losses where applicable.

Details of subsidiaries are on page 106.

2. Auditor's remuneration

Audit fees for the current year	**115**	110

3. Contingent liability

The company has guaranteed the senior banking facilities of Hudaco Trading (Pty) Ltd. The maximum exposure in this regard is approximately R1 987 million and the exposure is R1 079 million at year end.

PRINCIPAL SUBSIDIARIES
at 30 November 2016

	Issued share capital Rand	Interest of holding company					
		Group's effective interest		Book value of shares		Loans owing by	
		2016 %	2015 %	2016 R000	2015 R000	2016 R000	2015 R000
Dosco Precision Hydraulics (Pty) Ltd	100	**85**(2)	85(2)				
Gear Pump Manufacturing (Pty) Ltd	100	**85**(2)	85(2)				
Hudaco Trading (Pty) Ltd	2 000	**85**(1)	85(1)	**2**	2		
Operating businesses							
Abes Technoseal							
All-Trade							
Ambro Steel							
Astore Keymak							
Bauer Geared Motors							
Bearings International							
Belting Supply Services							
Berntel							
Bosworth							
Brewtech							
Deltec							
Deutz Dieselpower							
Elvey Security Technologies							
Ernest Lowe							
Filter and Hose Solutions							
Global Communications							
Hydraulic Engineering Repair Services							
MiRO							
Pentagon							
Powermite							
Proof Engineering							
Rutherford							
Sanderson Special Steels							
Specialised Battery Systems							
Three-D Agencies							
Varispeed							
Hudaco Investment Company Ltd	26 160	**100**	100	**48 158**	48 158	**139 089**	138 905
Barbara Road Investments (Pty) Ltd	100	**100**	100				
DD Power Holdings (Pty) Ltd	300 000	**70**(3)	70(3)				
DD Power (Pty) Ltd	7 450 000	**70**	70				
Joseph Grieveson (Pty) Ltd	100 000	**85**(2)	85(2)				
Partquip Group (Pty) Ltd	776 996	**85**(2)	85(2)				
Valhold Ltd	959 841	**100**	100	**37 692**	37 692		
Valard Ltd	874 149	**100**	100	**6 423**	6 423		
Interest in subsidiaries				**92 275**	92 275	**139 089**	138 905

(1) 15% of the shares in Hudaco Trading (Pty) Ltd are held by the following BEE shareholders: The Hudaco Trading BEE Staff Education Trust – 10%; The Hudaco Broad-Based BEE Foundation – 5%.
(2) Subsidiary of Hudaco Trading (Pty) Ltd – see note 1.
(3) 30% of the shares in DD Power Holdings (Pty) Ltd are held by Deutz AG.

A complete list of subsidiaries is available to shareholders on request at the registered office of the company.

SHAREHOLDER ANALYSIS
as at 25 November 2016

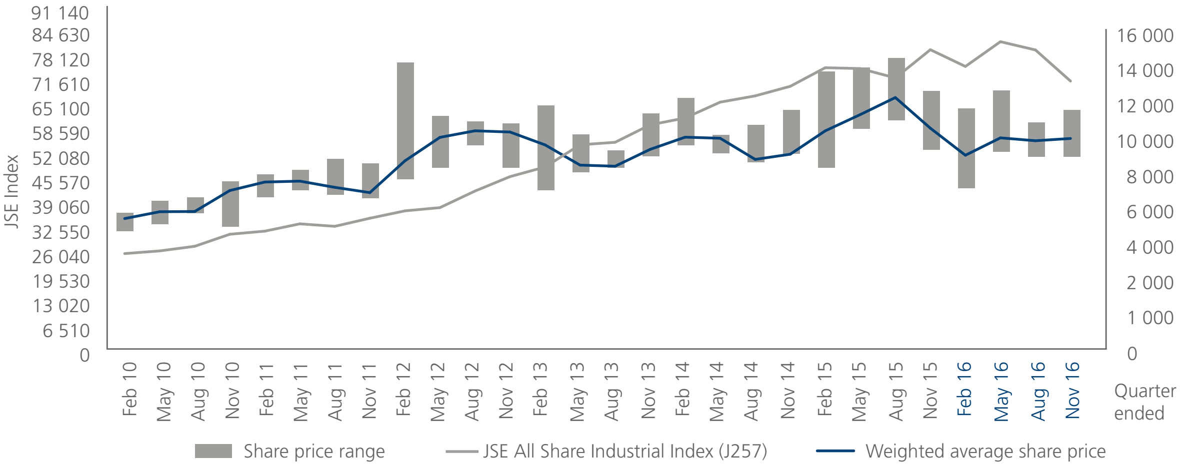
Shareholder analysis	Number of shareholders	Number of shares	% of issued shares
Portfolio size			
1 – 1 000 shares	**2 208**	855 564	2,70
1 001 – 5 000 shares	**765**	1 767 449	5,59
5 001 – 10 000 shares	**133**	979 804	3,10
10 001 – 100 000 shares	**183**	6 257 141	19,77
Over 100 000 shares	**54**	21 785 745	68,84
Total(1)	**3 343**	31 645 703	100,00
Category			
Banks and nominee companies	**46**	2 783 681	8,80
Financial institutions and pension funds	**222**	22 028 781	69,61
Individuals	**3 035**	6 011 973	19,00
Other corporate bodies	**40**	821 268	2,59
Total(1)	**3 343**	31 645 703	100,00
Shareholder spread			
Public	**3 323**	30 134 811	95,23
Non-public	**20**	1 510 892	4,77
Directors and associates(2)	**19**	1 506 692	4,76
Share trust	**1**	4 200	0,01
Total(1)	**3 343**	31 645 703	100,00

Major shareholders	Number of shares	% of issued shares
Beneficial shareholders holding more than 3%		
Public Investment Corporation GEPF	3 082 448	9,74
PSG Flexible Fund	1 341 478	4,24
PSG Balanced Fund	1 268 259	4,01
Nedgroup Investments Value Fund	1 175 006	3,71
Dunford Holdings (Pty) Ltd	970 812	3,07
Fund managers holding more than 3%		
PSG Asset Management	4 089 477	12,92
Public Investment Corporation	3 218 750	10,17
Old Mutual	3 047 761	9,63
Prudential Portfolio Managers	2 327 729	7,36
Sanlam Group	2 166 289	6,85
36ONE Asset Management	1 262 342	3,99
Foord Asset Management	1 175 006	3,71

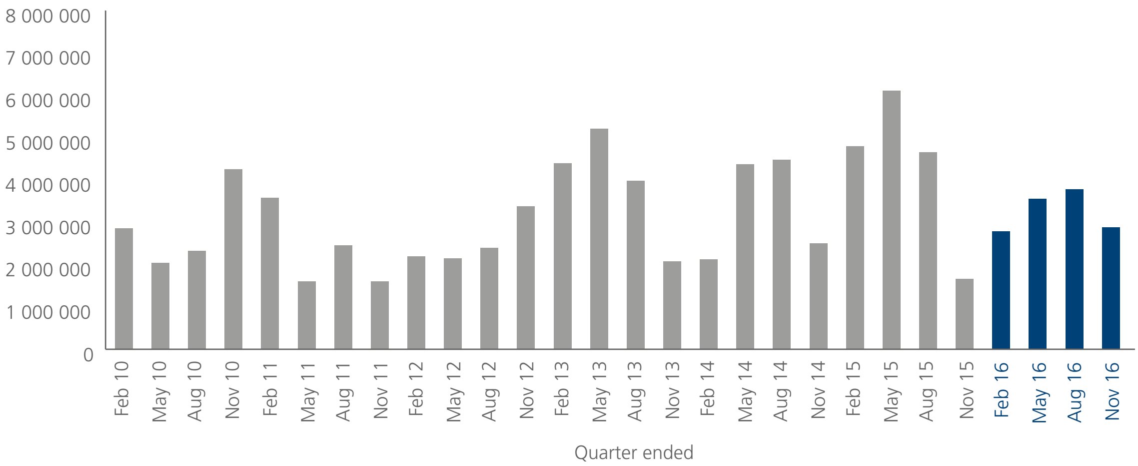
(1) Excludes 2 507 828 shares held by a subsidiary company.
(2) Directors' shareholdings are set out in note 27.1 to the financial statements.

SHARE INFORMATION

Share price history



Volume traded on JSE (000)



JSE statistics	**2016**	2015	2014	2013	2012	2011	2010
Market price (cents)	**10 850**	10 701	9 590	10 365	11 200	8 475	8 501
NAV per share (cents)	**6 525**	5 827	5 210	5 737	5 277	4 721	4 080
Number of shares in issue (000)*	**31 646**	31 646	31 646	31 646	31 646	31 646	31 540
Market capitalisation (Rm)*	**3 434**	3 386	3 035	3 280	3 544	2 682	2 681
Price: earnings ratio (times)	**9,3**	9,2	10,3	9,6	10,4	10,1	10,9
All Share Industrial Index PE ratio (J257)	**27,0**	22,6	21,6	21,0	18,7	17,4	17,3
Dividend yield (%)	**4,8**	4,9	4,8	4,5	4,2	4,3	4,1
All Share Industrial Index dividend yield (J257) (%)	**2,5**	2,3	2,2	2,2	2,4	2,6	2,1
Annual trade in Hudaco shares							
Number of transactions recorded	**20 903**	36 271	22 549	23 223	12 034	7 427	5 506
Volume of shares traded (000)	**12 995**	17 211	13 475	15 638	10 121	9 242	11 461
% of issued shares traded*	**41**	54	43	49	32	29	36
Value of shares traded (Rm)	**1 341**	2 007	1 354	1 496	1 062	757	822

** Excludes 2 507 828 shares held by a subsidiary company.*

NOTICE OF ANNUAL GENERAL MEETING

Hudaco Industries Limited

(Incorporated in the Republic of South Africa)
(Registration number 1985/004617/06)
Share code: HDC ISIN code: ZAE000003273
("Hudaco" or "the company")

Notice to shareholders of the 32nd annual general meeting (AGM) of Hudaco Industries Limited

Notice is hereby given that the 32nd AGM of shareholders of the company for the year ended 30 November 2016 will be held at 15:00 on Wednesday, 29 March 2017 in the boardroom at Hudaco's corporate offices situated at Building 9, Greenstone Hill Office Park, Emerald Boulevard, Greenstone Hill, Edenvale. Registration for attendance will commence at 14:30.

Important dates and times [(1),(2)]	**2017**
Record date for determining which shareholders are entitled to receive the AGM notice	Friday, 3 February
Notice posted to shareholders on	Friday, 17 February
Record date for attending and voting at the AGM [(3)]	Friday, 24 March
Last day for shareholders to lodge forms of proxy for the AGM by 15:00	Monday, 27 March
AGM to be held at 15:00	Wednesday, 29 March
Results of AGM to be released on SENS on	Wednesday, 29 March

Notes

(1) All times referred to in this notice are local times in South Africa.

(2) Any material variation of the above dates and times will be announced on SENS and published in the press.

(3) The Hudaco board of directors ("the board") has determined that the record date for the purpose of determining which shareholders are entitled to receive the AGM notice is Friday, 3 February 2017, and the record date for purposes of determining which shareholders of the company are entitled to participate and vote at the AGM is Friday, 24 March 2017. Accordingly, only shareholders who are recorded as such in the register maintained by the transfer secretaries of the company on Friday, 24 March 2017 will be entitled to participate in and vote at the AGM.

(4) Kindly note that AGM participants (including shareholders and proxies) are required to provide satisfactory picture identification before being entitled to attend or participate at the AGM. Forms of satisfactory identification include valid identity documents, driver's licences and passports.

Business to be transacted

The purpose of the AGM is for the following business to be transacted and the following resolutions to be proposed, all of them ordinary resolutions unless the contrary appears:

1. To present the audited consolidated financial statements of the company (as approved by the board), as well as the external auditor, audit and risk management committee, social and ethics committee and directors' reports for the financial year ended 30 November 2016, distributed as required.

   Copies of the integrated report which contains the full audited consolidated annual financial statements for the year ended 30 November 2016 are obtainable from the company's website: www.hudaco.co.za or from the group secretary.

2. Ordinary Resolution Number 1: To re-elect directors retiring by rotation

To re-elect as directors, each by way of a separate vote, the following directors who are required to retire in terms of clause 21.6.1 of the company's memorandum of incorporation (MOI) and who are eligible and have offered themselves for re-election:

2.1 Ordinary Resolution Number 1.1: Re-election of Ms D Naidoo

2.2 Ordinary Resolution Number 1.2: Re-election of Mr RT Vice

2.3 Ordinary Resolution Number 1.3: Re-election of Mr CV Amoils

The nomination committee of the board has reviewed the composition of the board against corporate governance and transformation requirements and has recommended the re-election of the directors listed above in 2. It is the view of the board that re-election of the candidates referred to in 2 above would enable the company to:

- responsibly maintain a mixture of business skills and experience relevant to the company and balance the requirements of transformation, continuity and succession planning; and
- comply with corporate governance requirements in respect of matters such as the balance of executive, non-executive and independent directors on the board.

Note

In terms of clause 21.6.1 of the company's MOI at least one third of the directors must retire each year and are eligible for re-election. The directors who shall retire shall be the longest serving directors since their last election. Brief curricula vitae of directors who have offered themselves for re-election are included on pages 18 and 19 of the Hudaco integrated report, which is available on the company's website: www.hudaco.co.za or from the group secretary.

3. Ordinary Resolution Number 2: To approve the re-appointment of external auditors

To re-appoint Grant Thornton as independent auditors of Hudaco and to note that the individual registered auditor who will undertake the audit for the financial year ending 30 November 2017 is Ms VR de Villiers.

The audit and risk management committee of the company has concluded that the appointment of Grant Thornton will comply with the requirements of the Companies Act, 71 of 2008 (the Companies Act) and the Companies Regulations 2011, and has accordingly nominated Grant Thornton for re-appointment as auditors of the company.

4. Ordinary Resolution Number 3: Appointment of the members of the audit and risk management committee

To elect, each by way of a separate vote, the members of the audit and risk management committee of the company, with effect from the end of the AGM:

4.1 Ordinary Resolution Number 3.1: To elect Ms D Naidoo as member; subject to the passing of Ordinary Resolution Number 1.1

4.2 Ordinary Resolution Number 3.2: To elect Ms N Mandindi as member

4.3 Ordinary Resolution Number 3.3: To elect SG Morris as member

Under the Companies Act the audit committee is a committee elected by the shareholders at each AGM. A brief *curriculum vitae* of each of the independent non-executive directors mentioned above appears on page 18 of the Hudaco integrated report.

The board has reviewed the proposed composition of the audit and risk management committee against the requirements of the Companies Act and the Companies Regulations 2011 and has confirmed that the proposed audit and risk management committee will comply with the relevant requirements and have the necessary knowledge, skills and experience to enable the committee to perform its duties in terms of the Companies Act. Accordingly, the board recommends the election of the directors listed above as members of the audit and risk management committee.

5. Special Resolution Number 1: Approval of non-executive directors' remuneration

That the remuneration payable to the non-executive directors of Hudaco for their services as directors for the period 1 April 2017 until 31 March 2018, be and it is hereby approved as set out below:

	Proposed 2017		2016	
R	Base fee	Penalty for non-attendance	Base fee	Penalty for non-attendance
Board				
Chairman of the board	975 000*	18 000	920 000*	17 000
Board member	260 700	12 700	246 000	12 000
Audit and risk management committee				
Chairman of the committee	226 800	18 000	214 000	17 000
Committee member	125 000	12 700	118 000	12 000
Remuneration committee				
Chairman of the committee	159 000	18 000	150 000	17 000
Committee member	40 200	6 300	38 000	6 000
Nomination committee				
Chairman of the committee	*		*	
Committee member	40 280	6 300	38 000	6 000
Social and ethics committee				
Chairman of the committee	135 600	18 000	128 000	17 000
Member of the committee	40 200	6 300	38 000	6 000

** All inclusive fee.*

The penalty incurred for non-attendance as chairman of a meeting would be paid to the member who stood in as chairman at that meeting.

The fee for additional meetings would be: Chairman – R26 500 (2016: R25 000), Member – R19 000 (2015: R18 000).

Reason and effect of Special Resolution Number 1

This resolution is proposed in order to comply with the requirements of the Companies Act. In terms of section 65(11)(h) of the Companies Act, read with sections 66(8) and 66(9), remuneration may only be paid to directors for their services as directors in accordance with a special resolution approved by the shareholders within the previous two years, and, only if this is not prohibited in terms of the company's MOI.

Therefore the reason for and effect of Special Resolution Number 1 is to approve the payment of and the basis for calculating the remuneration payable by Hudaco to its non-executive directors for their services as directors of the company for the period 1 April 2017 until 31 March 2018. The fees payable to the non-executive directors are detailed above. Further details on the basis of calculation of remuneration are included in the remuneration report on pages 33 to 35 of the Hudaco integrated report.

6. Non-binding Resolution Number 1: Endorsement of Hudaco's remuneration policy

That shareholders endorse, through a non-binding advisory vote to ascertain the shareholders' view, Hudaco's remuneration policy and its implementation. Hudaco's remuneration report is set out on pages 33 to 35 of its integrated report.

In terms of the King Code of Governance for South Africa 2009, an advisory vote should be obtained from shareholders on the company's annual remuneration policy. The vote allows shareholders to express their view on the remuneration policies adopted and their implementation, but will not be binding on the company.

7. Special Resolution Number 2: Authorising the provision of financial assistance to subsidiaries

That the board of directors of the company be and they are hereby authorised, to the extent required by and subject to section 45 of the Companies Act and the requirements, if applicable of: (i) the MOI; and (ii) the JSE Limited (JSE) Listings Requirements, to cause the company to provide direct or indirect financial assistance to a subsidiary or joint venture of Hudaco, provided that no such financial assistance may be provided at any time in terms of this authority after the expiry of two years from the adoption of this Special Resolution Number 2.

Reason and effect of Special Resolution Number 2

In the normal course of business, the company is often required to grant financial assistance to subsidiary or joint venture companies. This assistance includes but is not limited to loans and guarantees for banking facilities. If this authorisation is not granted, it could inhibit the group from making acquisitions or obtaining banking facilities without having to call a general meeting of shareholders on each occasion. Special Resolution Number 2 will enable the company to provide financial assistance to subsidiaries and joint ventures in the Hudaco group for any purpose in the normal course of business.

Section 45 of the Companies Act provides, among others, that financial assistance to subsidiaries and joint ventures must be provided only pursuant to a special resolution of the shareholders, adopted within the previous two years, which approved such assistance whether for the specific recipient, or generally for a category of potential recipients, and the specific recipient falls within that category and the board of directors must be satisfied that: (a) immediately after approving the financial assistance, the company would satisfy the solvency and liquidity test, and (b) the terms under which the financial assistance is proposed to be given are fair and reasonable to the company.

8. Special Resolution Number 3: General authority to repurchase up to 1 582 285 (5%) of the shares in issue

That Hudaco or any of its subsidiaries be and is hereby authorised, by way of a general approval, to acquire up to 1 582 285 (5%) of Hudaco ordinary shares ("ordinary shares") in terms of section 48 of the Companies Act and the JSE Listings Requirements, being 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 Hudaco and the counterparty;
- this general authority shall be valid until Hudaco's next AGM, provided that it shall not extend beyond 15 months from the date of passing of this special resolution;
- an announcement will be published as soon as Hudaco or any of its subsidiaries have acquired ordinary shares constituting, on a cumulative basis, 3% of the number of ordinary shares in issue and for each 3% in aggregate of the initial number acquired thereafter, in compliance with Rule 11.27 of the JSE Listings Requirements;

- acquisitions of ordinary shares in aggregate in any one financial year may not exceed 5% of Hudaco's ordinary issued share capital as at the date of passing of this Special Resolution Number 3;
- ordinary shares may not be acquired at a price greater than 10% above the weighted average of the market value at which such ordinary shares are traded on the JSE as determined over the five business days immediately preceding the date of repurchase of such ordinary shares by Hudaco or any of its subsidiaries;
- Hudaco has been given authority by its MOI;
- at any point in time, Hudaco may only appoint one agent to effect any repurchase on its behalf;
- prior to entering the market to repurchase the company's shares, a company resolution authorising the repurchase will have been passed in accordance with the requirements of section 46 of the Companies Act, stating that the board has applied the solvency and liquidity test as set out in section 4 of the Companies Act, and has reasonably concluded that the company will satisfy the solvency and liquidity test immediately after the repurchase; and
- Hudaco and/or its subsidiaries may not repurchase any ordinary shares during a prohibited period as defined by the JSE Listings Requirements unless a repurchase programme is in place, where the dates and quantities of ordinary shares to be traded during the prohibited period are fixed and full details of the programme have been submitted to the JSE in writing detailed prior to the commencement of the prohibited period.

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 of 12 months after the date of this notice of AGM:

- Hudaco and the group will be able, in the ordinary course of business, to pay its debts;
- the consolidated assets of Hudaco and the group, fairly valued in accordance with statements of International Financial Reporting Standards, will exceed the consolidated liabilities of Hudaco and the group; and
- Hudaco and the group's ordinary share capital, reserves and working capital will be adequate for ordinary business purposes.

The following additional information, which appears in the integrated report as published on Hudaco's website, is provided in terms of the JSE Listings Requirements for purposes of the general authority to repurchase shares:

- major shareholders – page 107
- share capital of the company – note 17 on page 38.

Directors' responsibility statement

The directors, whose names appear on pages 18 and 19 of this integrated report, collectively and individually accept full responsibility for the accuracy of the information pertaining to this Special Resolution Number 3 and certify that, to the best of their knowledge and belief, there are no facts that have been omitted which would make any statements false or misleading, and that all reasonable enquiries to ascertain such facts have been made and that this Special Resolution Number 3 contains all information required by law and the JSE Listings Requirements.

Material changes

Other than the facts and developments reported on in this integrated report, there have been no material changes in the affairs or financial position of Hudaco and its subsidiaries since the date of signature of the audit report and up to the date of this AGM notice.

Reason and effect of Special Resolution Number 3

The reason for and effect of this special resolution is to grant the directors of Hudaco a general authority in terms of the Companies Act and the JSE Listings Requirements for the repurchase by Hudaco, or a subsidiary of Hudaco, of up to 1 582 285 (5%) of its ordinary shares.

The directors have no specific intention, at present, for Hudaco to repurchase any of its ordinary shares but consider that such a general authority should be put in place should an opportunity to do so and which is and which would be in the best interests of Hudaco and its shareholders, present itself during the year.

9. Special Resolution Number 4: Amendment of the company's memorandum of incorporation

That, the MOI of the company be and it is hereby amended by deleting clause 11.3 in its entirety and inserting the following new clause after clause 18:

"**18.A Fractions of securities**

If pursuant to any corporate action or event, including any capitalisation issue, rights issue or consolidation of shares, Security Holders would, but for the provisions of this clause, become entitled to fractions of Securities ("Fractional Entitlements"), such Fractional Entitlements shall be dealt with in accordance with the Listings Requirements and any other requirements of the JSE applicable to the treatment of Fractional Entitlements in such circumstances at such time."

Reason and effect of Special Resolution Number 4

The reason for this special resolution is to amend the company's MOI in order to align it with a recent amendment to the JSE Listings Requirements, which provides that in circumstances where allocations of securities result in entitlements by shareholders or other security holders to the allocation of fractions of securities, such allocations will be rounded down to the nearest whole number, and shareholders or other security holders will receive a cash payment for the fractions of securities to which they would otherwise have become entitled. The Central Securities Depository Participants and brokers will then sell the securities constituted by the aggregation of these fractions on the open market.

The effect of special resolution number 4 is that the MOI will be amended in the manner provided for should it be passed.

The MOI will be available for inspection during normal business hours at the registered office of the company from the date of this notice of annual general meeting up to and including the date of the annual general meeting and will also be available on Hudaco's website (www.hudaco.co.za).

The MOI has been approved by the JSE.

10. Ordinary Resolution Number 4: General authority to directors to allot and issue authorised but unissued ordinary shares up to 1 582 285 (5%) of the shares in issue

That, as required by and subject to the MOI and the requirements of the Companies Act and the JSE Listings Requirements, from time to time, the directors be and they are, as a general authority and approval, authorised, as they in their discretion think fit, to allot and issue unissued ordinary shares of the company, subject to the following:

- the authority shall be valid until the date of the next AGM of the company, provided that it shall not extend beyond 15 months from the date of this AGM; and
- issues in terms of the authority will not, in any financial year, in aggregate, exceed 5% of the number of ordinary shares in the company's issued share capital as at the date of the AGM.

As explanation for the passing of ordinary resolution number 4, please note that clause 10.4 of the company's MOI, read with the JSE Listings Requirements, provides that shareholders may authorise directors to allot and issue the authorised but unissued shares, as the directors in their discretion think fit.

The authority in ordinary resolution number 4 will be subject to the Companies Act and the JSE Listings Requirements. The aggregate number of ordinary shares able to be allotted and issued in terms of this authority is limited as set out in this ordinary resolution number 4.

11. Ordinary Resolution Number 5 – Signature of documents

That any one director or the group secretary of Hudaco be and is hereby authorised to do all such things and sign all documents and take all such action as they consider necessary to implement the resolutions set out in the notice convening the AGM at which this ordinary resolution will be considered.

NOTICE OF ANNUAL GENERAL MEETING continued

Voting and proxies

To record the votes more effectively and give effect to the intentions of shareholders, voting on all resolutions will be conducted by way of a poll. Any shareholder entitled to attend and vote at the AGM may appoint a proxy to attend, speak and vote in his/her stead. A proxy need not be a shareholder of the company. For the convenience of registered members of the company, a form of proxy is enclosed herewith.

The attached form of proxy is to be completed only by those shareholders who are:

- holding the company's ordinary shares in certificated form, or
- recorded on the electronic sub-register in "own name" dematerialised form.

Shareholders who have dematerialised their ordinary shares through a Central Securities Depositary Participant (CSDP) or broker and wish to attend the AGM must instruct their CSDP or broker to provide them with their voting instruction in terms of the relevant custody agreement/mandate entered into between them and the CSDP or broker.

Completed forms of proxy should be returned to the transfer secretaries, Computershare Investor Services Proprietary Limited, Rosebank Towers, 15 Biermann Avenue, Rosebank, 2196 (PO Box 61051, Marshalltown, 2107), so as to reach them by no later than 15:00 on Monday, 27 March 2017.

By order of the board

R van Zyl
Group secretary

2 February 2017

Transfer secretaries
Computershare Investor Services Proprietary Limited
Rosebank Towers, 15 Biermann Avenue
Rosebank, 2196
(PO Box 61051, Marshalltown, 2107)

FORM OF PROXY

To: **Computershare Investor Services Proprietary Limited**
Rosebank Towers, 15 Biermann Avenue, Rosebank, 2196
(PO Box 61051, Marshalltown, 2107)
Fax +27 11 370 5390

Hudaco Industries Limited
(Incorporated in the Republic of South Africa)
(Registration number 1985/004617/06)
Share code: HDC **ISIN:** ZAE000003273
("Hudaco" or "the company")

Proxy form for the 32nd annual general meeting – for use by certificated Hudaco ordinary shareholders and dematerialised shareholders with own name registration only (see note 1)

To be received by no later than 15:00 on Monday, 27 March 2017

For use by Hudaco shareholders at the annual general meeting of Hudaco to be held on Wednesday, 29 March 2017 at Hudaco's corporate offices situated at Building 9, Greenstone Hill Office Park, Emerald Boulevard, Greenstone Hill, Edenvale, Gauteng at 15:00 (the annual general meeting).

I/We

of (address)

(please print)

being the holder(s) of ordinary shares in the capital of the company, do hereby appoint (see note 2):

1 or failing him/her

2 or failing him/her

3 the chairman of the annual general meeting

as my/our proxy to act on my/our behalf at the annual general meeting, which will be held for the purpose of considering and, if deemed fit, passing, with or without modification, the resolutions to be proposed thereat and at any adjournment thereof, and to vote for and/or against the resolutions and/or abstain from voting in respect of all the above ordinary shares registered in my/our name/s, in accordance with the following instructions:

Please indicate with an "X" in the appropriate box below how you wish to vote.

	Number of ordinary shares		
	For	**Against**	**Abstain**
Resolution			
Ordinary Resolution Number 1: To re-elect directors retiring by rotation:			
1.1 D Naidoo			
1.2 RT Vice			
1.3 CV Amoils			
Ordinary Resolution Number 2: To approve the re-appointment of external auditors			
Ordinary Resolution Number 3: Appointment of the members of the audit and risk management committee:			
3.1 D Naidoo			
3.2 N Mandindi			
3.3 SG Morris			
Special Resolution Number 1: Approval of non-executive directors' remuneration			
Non-binding Resolution Number 1: Endorsement of Hudaco's remuneration policy			
Special Resolution Number 2: Authorising the provision of financial assistance to subsidiaries			
Special Resolution Number 3: General authority to repurchase shares up to 1 582 285 (5%) of the shares in issue			
Special Resolution Number 4: Amendment of the company's MOI			
Ordinary Resolution Number 4: General authority to directors to allot and issue authorised but unissued ordinary shares – up to 1 582 285 (5%) shares in issue			
Ordinary Resolution Number 5: Signature of documents			

Signed at on 2017

Signature(s)

Assisted by me (where applicable)

FORM OF PROXY continued

Notes

1. Shareholders who have dematerialised their shares through a Central Securities Depository Participant (CSDP) or broker must either inform their CSDP or broker of their intention to attend the annual general meeting to provide them with the necessary authority to attend or provide the CSDP or broker with their voting instruction in terms of the custody agreement entered into between the beneficial owner and the CSDP or broker.

2. A shareholder may insert the name of a proxy or the names of two alternative proxies of the shareholder's choice in the space provided. The person whose name appears first on the form of proxy and who is present at the annual general meeting will be entitled to act as proxy to the exclusion of those whose names follow.

3. A shareholder's instructions to the proxy must be indicated by "X" in the appropriate box provided on the proxy form. Failure to comply with the above will be deemed to authorise a proxy to vote or abstain from voting at the annual general meeting as he/she deems fit in respect of all the members' votes exercisable at the meeting.

4. The completion and lodging of this form of proxy will not preclude the shareholder from attending the annual general meeting and speaking and voting thereat to the exclusion of any proxy appointed in terms hereof should the shareholder wish to do so (see note 1 above).

5. The chairman of the annual general meeting may reject or accept any proxy form that is completed and/or received, other than in accordance with these notes. Proxy forms received by way of facsimile will be acceptable.

6. Each shareholder is entitled to appoint one or more proxies (none of whom needs to be a shareholder of Hudaco) to attend, speak and vote in place of the shareholder at the annual general meeting.

7. Any alteration to this form of proxy, other than a deletion of alternatives, must be initialled by the signatories.

8. Documentary evidence establishing the authority of the person signing this form of proxy in a representative capacity must be attached to this form of proxy unless previously recorded by Hudaco.

9. Where there are joint shareholders:

   (a) Any one shareholder may sign the form of proxy;

   (b) The vote of the senior (for that purpose seniority will be determined by the order in which the names of shareholders appear in Hudaco's register of shareholders) who tenders a vote (whether in person or by proxy) will be accepted to the exclusion of the vote/s of the other joint shareholder/s.

10. Forms of proxy should be lodged with or posted to the transfer secretaries, Computershare Investor Services Proprietary Limited, Rosebank Towers, 15 Biermann Avenue, Rosebank, 2196 (PO Box 61051, Marshalltown, 2107), so as to reach them by no later than Monday, 27 March 2017 at 15:00.

Additional forms of proxy are available from the transfer secretaries on request.

CORPORATE INFORMATION

Hudaco Industries Limited

(Incorporated in the Republic of South Africa)
(Registration number 1985/004617/06)
JSE share code: HDC
ISIN code: ZAE000003273

Registered and business address

1st Floor, Building 9
Greenstone Hill Office Park
Emerald Boulevard
Greenstone Hill, Edenvale
(Private Bag 13, Elandsfontein, 1406)

Tel +27 11 657 5000

Email: info@hudaco.co.za

Website: www.hudaco.co.za

Secretary

Reana van Zyl
Contact details as above

Transfer secretaries

Computershare Investor Services Proprietary Limited
Rosebank Towers, 15 Biermann Avenue
Rosebank, 2196
(PO Box 61051, Marshalltown, 2107)

Tel + 27 11 370 5000

Auditors

Grant Thornton
Wanderers Office Park
52 Corlett Drive
Illovo
(Private Bag X28, Benmore, 2010)

Bankers

Absa Bank Limited
FirstRand Bank Limited
Nedbank Limited
The Standard Bank of South Africa Limited

Sponsor

Nedbank Corporate and Investment Banking
135 Rivonia Road, Sandton, 2196
(PO Box 1144, Johannesburg, 2000)

SHAREHOLDERS' DIARY

Financial year end	30 November
Annual general meeting	29 March 2017
Reports and financial statements	
Preliminary report and final dividend announcement	3 February 2017
Abridged financial statements and notice of annual general meeting (mailed to shareholders)	17 February 2017
Interim report and interim dividend announcement	30 June 2017
Dividend payment details	
Payment of final dividend	6 March 2017
Payment of interim dividend	third week in August 2017

GROUP DIRECTORY

DIVISION	BUSINESS NAME	PRINCIPAL ACTIVITIES	ADDRESS
CONSUMER-RELATED PRODUCTS			
Power tools	Rutherford	Distributor of Makita power tools, Mercury marine engines and survey instrumentation, rivets and fasteners	77 Smits Street Industries West Germiston
Security equipment	Commercial ICT	Hosts and supports core IT infrastructure, communication networks, sale of hardware and data-based airtime for its communication products	27 Greenstone Place Greenstone Hill Edenvale
	Elvey Security Technologies	Distributor of electronic security equipment, including intruder detection, access control, CCTV, fire detection, electric fencing and specialised products, as well as related consumables	27 Greenstone Place Greenstone Hill Edenvale
	Pentagon	Distributor of integrated security and life safety solutions, including CCTV, access control, fire detection, public address and perimeter detection products	27 Greenstone Place Greenstone Hill Edenvale
Communication equipment	Global Communications	Distributor of professional mobile radio communication equipment and radio systems integrator	Highway Business Park Park Street Rooihuiskraal Centurion
	MiRO	Distributor of wireless networking, VoIP and video products and the provision of strong after-sales service and technical support	9 Landmarks Avenue Kosmosdal Ext 11 Samrand
	SS Telecoms	Supplier of voice and data solutions, specialising in PBX communication management software and telephone management	10 Monte Carlo Crescent Kyalami Business Park Midrand
Automotive	Abes Technoseal	Distributor of automotive clutch kits and ignition leads, rotary oil and hydraulic seals	10 Wankel Street Jet Park
	Partquip	Importer and distributor of automotive spares and accessories	61 Trump Street West Selby Johannesburg
Batteries	Deltec Energy Solutions	Distributor of maintenance free batteries and provider of custom designed energy solutions	6 Liebenberg Street Alrode Alberton
	Specialised Battery Systems	Importer and distributor of stand-by and solar batteries	23 Golden Drive Morehill Benoni
ENGINEERING CONSUMABLES			
Bearings	Bearings International	Distributor of bearings, chains, seals, electric motors, transmission and allied products	Lancaster Commercial Park (off Atlas Rd) Cnr Merlin Rose & Lancaster Ivy Drives Parkhaven Ext 5, Boksburg
Diesel engines and spares	Deutz Dieselpower	Distributor of Deutz diesel engines and Deutz spare parts and the provision of service support	5 Tunney Road Elandsfontein
Power transmission	Ambro Steel	Distributor of engineering steels, solid, round, square, hexagonal and hollow bar steel	Corner Lamp and Snapper Roads Wadeville
	Astore Keymak	Distributor of specialised thermoplastic pipes, fittings and Keymak PVC hose	46 Paul Smit Street Anderbolt Boksburg
	Bauer Geared Motors	Distributor of geared motors, hellical gearboxes, frequency inverters and electric motors	72 Acacia Road Cnr Barbara Road Primrose, Germiston
	Belting Supply Services	Distributor of conveyor belting, industrial hose, fluid sealing and process control products	15 Fortune Street City Deep
	Berntel	Importer and distributor of pneumatic and process components	Unit D2 Strijdom Commercial Park Tungsten Road Randburg
	Bosworth	Manufacturer of conveyor drive pulleys, forgings and rollings	Corner Vereeniging and Juyn Roads Alrode

CONTACT		EXECUTIVES			
Tel	011 878 2600	Martin Peterson	Chief executive	Neil Black	Divisional director
Fax	011 873 1689	Arusha Asari	Financial director	Dave Pendrill	Divisional director
Email	info@rutherford.co.za	Carol Caunter	Divisional director	Craig Gutteridge	Divisional manager
Tel	010 590 6177	Brad Morein	Managing director		
Email	bradmorein@commercialict.co.za				
Tel	011 401 6700	Gary Lowe	Chief executive	Ingo Mutinelli	Business development director
Fax	011 401 6753	Dave Waywell	Regional director – coastal	Zane Greeff	Regional director – inland
Email	sales@elvey.co.za	Anika Peterson	Financial manager		
Tel	011 401 6700	Gary Lowe	Chief executive	Matthew Short	Divisional director
Fax	011 401 6753	Brendon Hall	Managing director	Tim Russel	Divisional director
Email	info@pentgon.co.za	Elmar Snyman	Divisional director		
Tel	087 310 0400	Sean Mervitz	Managing director	Errol Baker	Non-executive director
Fax	011 661 0387	Barbara Smith	Financial director	Paul Werner	Non-executive director
Email	info@globalcomms.co.za				
Tel	012 657 0960	Bertus van Jaarsveld	Managing director	Jaco Malan	Financial director
Email	feedback@miro.co.za				
Tel	012 664 4644	George Smalberger	Managing director	Sue-Anne Jansen van Rensburg	Financial manager
Fax	086 614 5625	Barbara Smith	Financial director		
Email	sales@sstelecoms.com				
Tel	011 397 4070	Danie Venter	Managing director	Juan Radley	Financial manager
Fax	011 397 4326	Jayne Kyte	Logistics director		
Email	info@abes.co.za				
Tel	011 634 7600	Carl Rogers	Managing director	Chris de Kock	Financial director
Fax	011 493 3131	Charmaine Anthony	Logistics director	Lavern Jacobs	Divisional director
Email	linda@partquip.co.za	Malene Rizzo	Divisional director	Mic van Zyl	Divisional director
Tel	011 864 7930	Colin Eddey	Managing director	Marshall Moodley	Financial manager
Fax	011 908 6154	Carl Luther	Technical director	John Stroebel	Sales director
Email	sales@deltecpower.co.za				
Tel	011 425 3447	Sheldon Orren	Managing director	Bradley Orren	Commercial director
Fax	011 425 4433	Natasha Jasmin	Financial manager		
Email	sheldon@special-battery.co.za				
Tel	011 899 0000	Burtie Roberts	Chief executive	Niniza Sithole	Financial director
Fax	011 899 6586	Hennie van Vuuren	General manager	Gary Muller	General manager
Email	info@bearings.co.za	Shenton Botes	General manager	Maretha Bezuidenhout	General manager
Tel	011 923 0600	Maurice Pringle	Managing director	Avinash Ramnarain	Financial director
Fax	011 923 0611	Rowan Michelson	Marketing director	Steven Moss	Sales director
Email	info@deutz.co.za				
Tel	011 824 4242	Lynette Anderson	Chief executive	David da Silva	Financial director
Fax	011 824 4864				
Email	david@ambro.co.za				
Tel	011 892 1714	Pranesh Maniraj	Managing director	Andrew Smith	Financial director
Fax	011 892 2781				
Email	info@astorekeymak.co.za				
Tel	011 828 9715	Burtie Roberts	Chief executive	Knocks Ngema	Sales director
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GROUP DIRECTORY continued

DIVISION	BUSINESS NAME	PRINCIPAL ACTIVITIES	ADDRESS
ENGINEERING CONSUMABLES continued			
	Brewtech Engineering	Importer and distributor of plastic and stainless steel slat chains, modular belting and conveyor components and manufacturer of plastic engineering parts	389 Elsecar Road Kya Sands
	Dosco Precision Hydraulics	Supply of hydraulic pumps and motors to the mining, industrial, mobile, marine and forestry industries	6 Impangela Road Sebenza Ext 6
	Ernest Lowe	Manufacturer of hydraulic and pneumatic equipment	6 Skew Road Boksburg North
	Filter and Hose Solutions	Supplier of filtration solutions, customised exhaust systems, kits and accessories	160 Francis Road Anderbolt Boksburg North
	Gear Pump Manufacturing	Manufacture and assembly of hydraulic gear pumps	15 Moody Avenue Epping 1 Cape Town
	Hydraulic Engineering Repair Services	Manufacturer and repairer of hydraulic cylinders and repairer of drivetrain components	69 Miller Road Germiston Industrial Germiston
	Joseph Grieveson	Manufacturer of ferrous and non-ferrous castings	332 Aberdare Drive Phoenix Industrial Park Phoenix, Durban
	Powermite	Distributor of electric cabling, plugs, sockets, electric feeder systems and crane materials	2754 Albertina Sisulu Road (previously: 92 Main Reef Road) Technikon Roodepoort
	Proof Engineering	Manufacturer and distributor of mining connectors and lighting systems	368 Sifon Street Robertville Roodepoort
	Sanderson Special Steels	Distributor of special steels and heat treatment to the tool making and general engineering industries	18 Junction Street Parow Industria Cape Town
	Three-D Agencies	Distributor of electrical cable accessories	Unit B1, Route 24 50 Herman Street Meadowdale
	Varispeed	Distributor of controllers, monitors and regulators of the speed of standard AC motors	4 Clovelly Business Park 342 Old Pretoria Main Road Midrand
GROUP			
Group Head Office	Hudaco Industries Hudaco Trading		Building 9 Greenstone Hill Office Park Emerald Boulevard Greenstone Hill Edenvale

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