Hudaco

INTEGRATED REPORT 2017

CONTENTS

PROFILE

Hudaco Industries is a South African group specialising in the importation and distribution of high-quality branded automotive, industrial and electronic 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

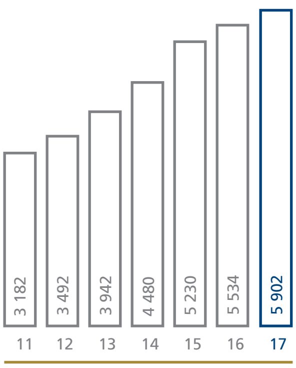
- **Turnover up 7% to R5,9 billion**
- **Operating profit up 6% to R676 million**
- **Comparable earnings per share up 7% to 1 251 cents**
- **Annual dividend up 7% to 560 cents per share**
- **Return on equity 19%**
- **Net cash generated from operations R711 million**

- **Achieved Level 3** on new BEE Codes
- **Diversification** strategy pays off
- **Strong growth** in key businesses
- **27 employees graduate** from Wits Business School
- **90 bursaries granted** to staff and their family members
- **70 technical** trainees successful
- **Economy** went into recession and Rand volatile again
- **Project business** dried up
- **Africa business** disappointing

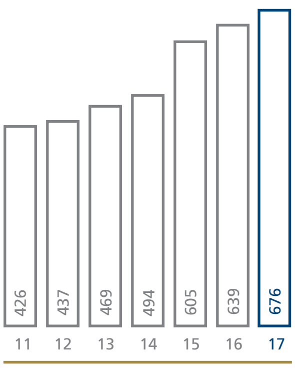
RESULTS IN BRIEF

30 November	2017	2016
Turnover (Rm)	**5 902**	5 534
Operating profit (Rm)	**676**	639
Comparable earnings (Rm)	**396**	370
Headline earnings (Rm)	**398**	387
Attributable earnings (Rm)	**397**	388
Comparable earnings per share (cents)	**1 251**	1 171
Headline earnings per share (cents)	**1 256**	1 222
Dividends per share (cents)	**560**	525

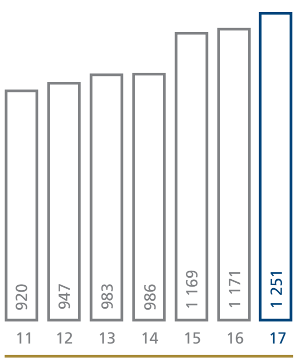
TURNOVER
(RM)



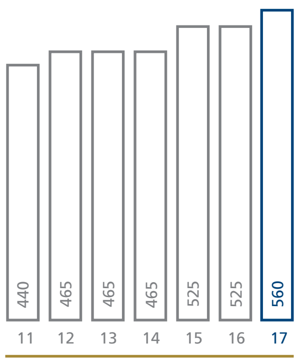
OPERATING PROFIT
(RM)



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 2016 to 30 November 2017. 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 2017 and 30 November 2016. The previous IAR covered the period 1 December 2015 to 30 November 2016. The IAR deals with all of Hudaco's operations, which are overwhelmingly in South Africa, and to a small extent in 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 IV Report on Corporate Governance for South Africa (King IV). 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 businesses 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;
- legislation and guidelines;
- King IV;
- JSE Listings Requirements;
- performance and developments during the year; and
- matters the board believes are of relevance to stakeholders.

HISTORY

1890s

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.

1930s

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.

1970s

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.

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

Report element	Guidelines	Reference
Corporate governance and risk management report	The JSE Listings Requirements and King IV	Pages 29 to 39
Black economic empowerment status report	Codes of Good Practice, issued by the Department of Trade and Industry (dti)	Page 64
Environmental impact and employee report	Various relevant guidelines including those contained in the global reporting initiative (GRI) G3 indicators	Pages 65 to 67 and 70 to 79
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 80 to 118

Assurance

No external assurance has formally been sought, other than from our external auditors Grant Thornton for the annual financial statements.

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.

Forward-looking statements

This report may contain forward-looking statements with respect to Hudaco's future performance and prospects. While these statements represent our judgements and future expectations, several factors may cause actual results to differ materially from our expectations.

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, MiRO and Partquip, which serves the automotive aftermarket and is now the group's largest single business. Many smaller businesses have also been acquired. This acquisition strategy has included a strong initiative to diversify the revenue base so as to reduce dependence on the group's traditional core markets of mining and manufacturing, which have experienced very difficult trading conditions and in which growth has been elusive. This has boosted contributions from the automotive, communication, security and alternative energy sectors.

Today, with a proud history of over 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 3 600 people and has a market capitalisation of about R4,2 billion. Its shareholders include many blue-chip players in the South African investment industry.

GROUP AT A GLANCE

CONSUMER-RELATED PRODUCTS

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Principal activities	Businesses
Automotive aftermarket products	**Abes Technoseal and Partquip**
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 aftermarket.	Distribute seals and Valeo clutch kits and a variety of passenger and 4X4 vehicle parts, respectively.
Batteries	**Deltec, Specialised Battery Systems and Eternity Technologies**
The distribution of maintenance free lead acid, stand-by and solar batteries and the supply of batteries, high frequency chargers and related battery management equipment to the traction battery market and also designs, builds and manages battery bays for warehouses and distribution centres.	Distribute maintenance free automotive, stand-by and solar batteries and batteries for forklifts as well as provide full on-site facilities management for forklift battery bays in large warehouses and distribution centres.
Power tools	**Rutherford**
The distribution of power tools, marine engines, survey equipment, rivets and fasteners.	Distributes Makita power tools and Mercury marine engines and a comprehensive range of rivets and fasteners.
Security equipment	**Elvey Security Technologies, Pentagon and Commercial ICT**
The distribution of stand-alone and integrated intrusion detection, access control, fire detection and surveillance/cctv solutions, including the provision of related IP/GSM network and support services.	Distribute Bosch, DSC, Optex, Impro, Permaconn and other leading security-related solutions.
Communication equipment	**MiRO, Global Communications and SS Telecoms**
The distribution of wireless networking, VoIP, video products, professional mobile radio equipment and radio systems integrator, and the distribution of communication management software, solutions and equipment.	Distribute Ubiquiti, Mikrotik and Cambium data networking, video equipment, Kenwood, Barrett, JVC, Sharetel, Mitel and ATel communication equipment.

ENGINEERING CONSUMABLES

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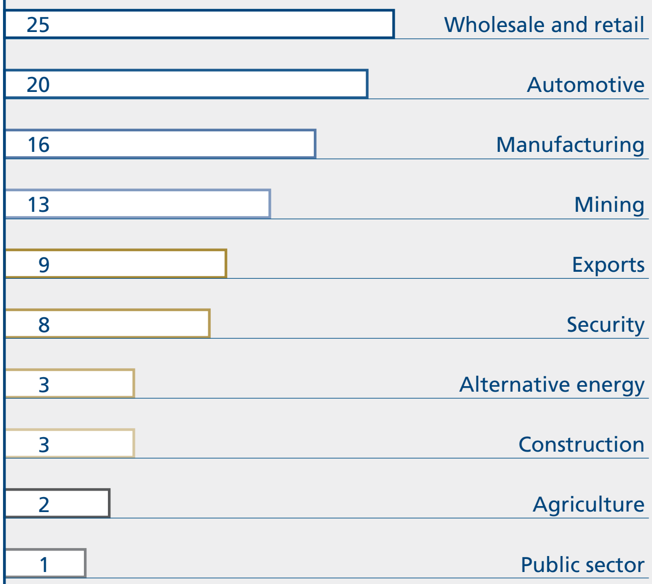
Principal activities	Businesses
Diesel engines and spares	**Deutz Dieselpower**
The distribution of Deutz diesel engines and Deutz spares and the provision of service support.	Represents Deutz AG – one of the world's leading independent manufacturers of diesel engines.
Mechanical power transmission	**Bauer, Belting Supply Services, Bosworth, Brewtech Engineering, Dosco, Filter and Hose Solutions, GPM, HERS and Joseph Grieveson**
The distribution of geared motors, belting, drivetrains, filtration solutions, kits and accessories, industrial hose, conveyor drive pulleys, dished ends, gear pumps, ferrous and non-ferrous castings, and related products to the manufacturing and mining aftermarkets.	Businesses focusing a broad range of mechanical power transmission applications.
Electrical power transmission	**Powermite, Proof Engineering, Three-D Agencies and Varispeed**
The distribution of variable speed drives, electrical cabling, plugs and related products to the manufacturing, mining and agricultural aftermarkets.	Import sophisticated cabling and accessories and manufacture electrical plugs, sockets, connectors and flame-proof lighting.
Bearings	**Bearings International**
The distribution of bearings, chain, seals, geared motors, electric motors and transmission products.	Has over 40 branches across South Africa. The main bearing brands distributed are FAG from Germany and KOYO from Japan.
Hydraulics and pneumatics	**Berntel, Ernest Lowe and HERS**
The distribution and manufacture of hydraulic and pneumatic product, service and repairs and design of systems.	Supply Norgren and JELPC products as well as full service to required degree of precision and design of hydraulic systems.
Thermoplastic pipes and fittings	**Astore Keymak**
The distribution of thermoplastic pipes and fittings and manufacture of dragline hose.	Distributes Agru thermoplastic pipes and fittings and manufactures Keymak dragline hose.
Specialised steel	**Ambro Steel, Sanderson Special Steels and The Dished End Company**
The sale, cutting and hardening of round, hexagonal and hollow steel bar and key steel.	Provide full service to customers including supply, cutting to size and heat treatment and the manufacture of dished and flanged ends.

Key drivers	R million	2017	2016
• Consumer spending • Building activity • Employment levels • Vehicle sales • Analogue to digital migration • Broadband, Wi-Fi and VoIP expansion	**Turnover**	**3 051**	2 802
	– Ongoing	**2 434**	2 553
	– Acquired after Dec 2015	**617**	249
	Operating profit	**428**	405
	– Ongoing	**357**	372
	– Acquired after Dec 2015	**71**	33
	Average net operating assets	**1 592**	1 337
	Number of permanent employees	**1 443**	1 004

Key drivers	R million	2017	2016
• GDP growth • Mining activity • Mining investment • Mining mechanisation • Manufacturing activity • Electricity usage management	**Turnover**	**2 861**	2 739
	– Ongoing	**2 780**	2 706
	– Acquired after Dec 2015	**81**	33
	Operating profit	**272**	255
	– Ongoing	**258**	247
	– Acquired after Dec 2015	**14**	8
	Average net operating assets	**1 710**	1 732
	Number of permanent employees	**2 172**	2 068

GROUP

Sales by market sector – 2017 (%)



Key drivers	R million	2017	2016
• Exchange rates • Acquisitions	**Turnover**	**5 902**	5 534
	– Ongoing	**5 204**	5 252
	– Acquired after Dec 2015	**698**	282
	Operating profit	**676**	639
	– Ongoing	**591**	598
	– Acquired after Dec 2015	**85**	41
	Average net operating assets	**3 411**	3 141
	Number of permanent employees	**3 639**	3 096

SEVEN-YEAR REVIEW

R million	2017	2016	2015	2014	2013	2012	2011
GROUP STATEMENT OF INCOME							
Turnover	**5 902**	5 534	5 230	4 480	3 942	3 492	3 182
Profit before interest and tax	**678**	658	603	497	446	446	426
Net finance costs less dividends received	**103**	100	76	39	21	48	42
Profit before taxation	**575**	558	527	458	425	398	384
Taxation excluding tax settlement	**156**	148	141	128	120	47	47
Profit before tax settlement	**419**	410	386	330	305	351	337
Settlement of tax dispute				312			
Income from joint venture	**3**	3	3				
Profit for the year	**422**	413	389	18	305	351	337
Non-controlling interest	**25**	25	20	15	11	11	13
Attributable earnings	**397**	388	369	3	294	340	324
Shares in issue (000) (weighted average)	**31 646**	31 646	31 646	31 646	31 646	31 646	31 617
Earnings per share (cents)							
– comparable	**1 251**	1 171	1 169	986	983	947	920
– headline	**1 256**	1 222	1 163	6	928	1 071	1 024
– basic	**1 254**	1 226	1 164	8	930	1 074	1 026
Dividends per share (cents)	**560**	525	525	465	465	465	440
GROUP STATEMENT OF FINANCIAL POSITION							
Property, plant and equipment	**270**	256	261	257	214	205	182
Investment in joint venture	**9**	7	7				
Goodwill	**1 480**	1 243	1 001	730	619	594	516
Intangible assets	**70**	68	69	36	39	49	49
Deferred taxation – net	**13**	26	15	1	10	11	11
Inventories	**1 538**	1 508	1 369	1 141	1 104	919	813
Trade and other receivables	**1 156**	1 046	990	856	780	684	616
Trade and other payables	**(943)**	(898)	(764)	(711)	(673)	(592)	(586)
Taxation – net	**(26)**	3	3	(186)	37	(6)	(8)
Net operating assets	**3 567**	3 259	2 951	2 124	2 130	1 864	1 593
Investment in preference shares						2 181	2 181
Net (borrowings) cash	**(860)**	(905)	(1 016)	(413)	(204)	(17)	166
Employment of capital	**2 707**	2 354	1 935	1 711	1 926	4 028	3 940
Equity holders of the parent	**2 295**	2 065	1 844	1 649	1 816	1 670	1 494
Non-controlling interest	**81**	65	51	33	19	26	31
Equity	**2 376**	2 130	1 895	1 682	1 835	1 696	1 525
Subordinated debenture						2 181	2 181
Amounts due to vendors on acquisitions	**331**	224	40	29	91	151	234
Total capital employed	**2 707**	2 354	1 935	1 711	1 926	4 028	3 940
GROUP STATEMENT OF CASH FLOWS							
Cash generated from trading	**776**	709	677	545	520	483	468
(Increase) decrease in working capital	**(65)**	37	(153)	(44)	(138)	(121)	(129)
Cash generated from operations	**711**	746	524	501	382	362	339
Taxation paid (including tax settlement)	**(131)**	(175)	(378)	(222)	(169)	(54)	(46)
Net cash from operating activities	**580**	571	146	279	213	308	293
Investment in new operations	**(210)**	(165)	(463)	(224)	(181)	(229)	(164)
Investment in property, plant and equipment	**(47)**	(30)	(31)	(58)	(32)	(39)	(64)
Disposal of preference shares					2 181		
Dividends and interest received					50	202	205
Net cash from investing activities	**(257)**	(195)	(494)	(282)	2 018	(66)	(23)
Proceeds from issue of shares							2
Share-based payments	**(16)**	(5)	(24)	(20)	(7)	(25)	(10)
(Decrease) increase in long-term borrowings	**(35)**	(90)	603	197		(3)	3
Subordinated debenture repurchased					(2 181)		
Finance costs paid	**(81)**	(86)	(73)	(38)	(66)	(237)	(234)
Dividends paid	**(178)**	(174)	(158)	(148)	(164)	(163)	(124)
Net cash from financing activities	**(310)**	(355)	348	(9)	(2 418)	(428)	(363)
Net increase (decrease) in cash and cash equivalents	**13**	21	0	(12)	(187)	(186)	(93)

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 long-term benefit of all stakeholders, in both current and future generations.

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 have them readily available 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 and equitable 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	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
Environment	We are 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 record; support for wellness initiatives;

71
- 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;

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- Communities – success of students on our BEE bursary programme, support for and success of our corporate social investment initiatives; and

65
- 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 strive 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 extent of value add is determined by 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

59, 64

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.

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.

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.

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;
- facilitates superior customer service;
- empowers employees; and
- leads to high standards and disciplines.

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 do not 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.

DISTRIBUTION

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 56 to 63. 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 and Botswana.

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Consumer-related products

- Automotive aftermarket products
- Power tools
- Batteries
- Communication equipment
- Security equipment
- Data networking equipment

Engineering consumables

- Mechanical power transmission products
- Electrical power transmission products
- Diesel engines and spares
- Hydraulics and pneumatics
- Thermoplastic pipes and fittings
- Bearings
- Specialised steel

JOINT REPORT OF THE CHAIRMAN AND CHIEF EXECUTIVE

2017 Overview

Hudaco is an agency distribution business, the financial performance of which is heavily dependent on South Africa's GDP growth rate and the Rand exchange rate. In the 2017 financial year the resilience of our strategy for tough market conditions was proven yet again. We had to cope with a South African economy in recession coupled with an extremely volatile Rand exchange rate resulting in economic conditions that were challenging to say the least. The relatively strong Rand between October 2016 and March 2017 placed our businesses under pressure to reduce prices. Thereafter we had to contend with a disastrous cabinet reshuffle in which the highly respected finance minister was removed and the release of an unworkable new mining charter. The ensuing inevitable ratings downgrades caused the Rand to weaken substantially, which relieved the downward pressure on pricing but, coupled with regular negative news throughout the year, including the revelations around State capture, increasingly ineffective government, corruption and high risk populist rhetoric, it sapped any remaining business confidence from the economy and business suffered. The largest impact on Hudaco of the negative sentiment was felt in those businesses heavily reliant on projects because so many customers either cancelled planned projects or put them on hold until such time as the turmoil abated.

Against this negative backdrop we are pleased with the results achieved. Annual sales were up 7% to R5,9 billion whilst operating profit rose 6% to R676 million. Comparable earnings per share were up 7% to 1 251 cents while headline earnings per share rose only 3% to 1 256 cents because of a positive fair value adjustment on the vendor liability in the previous year. The return on equity was a very respectable 19%, well above our cost of capital.

Ongoing operations' operating profit was down 1% with both segments having to grind it out. Their results give a good indication of how difficult trading conditions were. Ongoing operations in the consumer-related products segment was down 4% with the bulk of this decline coming from the projects side of both the communications and security businesses. Encouragingly, engineering consumables' operating profit from ongoing operations was up 4,5% even with the mining and manufacturing sectors firmly in recession for part of the year. It is only through the deployment of cash generated by the existing businesses in the acquisition of successful new businesses with better growth potential that we were able to increase profits.

The final dividend has been increased by 25 cents giving a total dividend for 2017 of 560 cents, up almost 7% year on year. Comparable earnings cover the full dividend 2,23 times, which falls within our long-term dividend policy range of paying between 40% and 50% of comparable earnings.

Financial position

The financial position remains healthy with consistently strong cash generation. The group had R860 million in net bank borrowings at year end, representing gearing of 36%, down from R905 million in 2016, notwithstanding R210 million spent on acquisitions. More importantly, interest payments (excluding imputed interest) were covered eight times by operating profits against our internal benchmark of at least five times. We have significant additional bank borrowing facilities available so there is still capacity for acquisitions and we continue to look for businesses in growth areas to further diversify and strengthen our portfolio.

Inventories have been well managed considering the volatility of the Rand against our basket of currencies. At R1 538 million, they are down 2%, excluding take-on inventory of acquisitions. The return on net operating assets including goodwill (RONA) in 2017 is 19,8%, compared with 20,4% last year, still well above our cost of capital, which is approximately 15%.

Consumer-related products

The consumer-related products segment comprises 11 businesses. In 2017, it made up 52% of Hudaco's sales and 61% of operating profit.

The demand for automotive spares and accessories in the year for Partquip and Abes was strong, which was to be expected. As new car sales slumped, repairs took preference over replacement and consequently both these businesses had a good year. Rutherford, the second largest business in this segment which distributes Makita power tools and garden equipment had an excellent year, as all the authority letters for new products were issued by the National Regulator for Compulsory Specifications. MiRO, a distributor of wireless connectivity products in its second year with Hudaco, achieved strong growth as it continued to add to its impressive basket of wireless technology products. The Elvey Security Technologies group had a difficult year with both sales and profit well down, particularly in Pentagon, the high end project side of the business. Our communications business struggled again for the second year with no significant projects awarded. We will right size this business this year for current turnover levels.

Rutherford had recently moved to a larger, more effective distribution centre at City Deep and we look forward to the benefits.

The segment increased sales by 9% to R3 billion and operating profit by 6% to R428 million. Operating profit margin was 14,0%.

Achieved Level 3
on new BEE codes

Strong growth
in key businesses

Succession in place
for non-executive directors

Optimism
for economic improvement

> It is through the dedication and hard work of all our staff throughout the group that we are able to navigate these challenging economic conditions.

Royden Vice
Chairman

Graham Dunford
Chief executive

JOINT REPORT OF THE CHAIRMAN AND CHIEF EXECUTIVE continued

Engineering consumables

The 21 businesses that constitute engineering consumables made up the other 48% of sales and 39% of operating profit.

The majority of businesses in this segment distribute mature industrial products to mature economic segments (mainly mining and manufacturing). These market sectors have been in decline for the last approximately 10 years partly due to natural boom and bust cyclicality of resources but also recently due to new regulations scaring off investment. Hudaco businesses in this segment are sized correctly for current market conditions and, whilst profits are not growing, returns are good and they generate the cash we use to diversify and expand our portfolio of businesses.

We are happy to report that two of the three businesses in this segment which suffered significant declines in sales and operating profit in 2016 delivered significantly improved performances this financial year. Our filter business, FHS, has benefitted from an increase in activity, mainly in open-cast mining but also in the construction sector. In the gear pump business, GPM, sales have picked up locally and from the USA and UK. Sales in our diesel engine business, Deutz Dieselpower, normalised albeit at a lower level than in the load shedding era. Encouragingly, late in the year we saw an increase in activity in the mining side of this business, which bodes well for 2018.

The segment increased sales by 4,5% to R2,9 billion whilst operating profit increased 7% to R272 million. Operating profit margin increased to a very respectable 9,5%.

Acquisitions

2017 was another pleasing year for acquisitions with five businesses acquired: SS Telecoms, Commercial ICT, The Dished End Company, GPD UK (a route to the UK market for Gear Pump Manufacturing) and Eternity Technologies. Although the businesses are relatively small, they assist with the group's strategy of diversification from reliance on traditional Hudaco markets. The likely purchase prices of these businesses total R311 million, of which R143 million was paid during the year. They contributed 21 cents per share to comparable earnings in 2017 and that should grow to 68 cents in 2018 when all the businesses will be included for the full 12 months.

The importance of acquisitions is reinforced with the four acquisitions made in 2016 having contributed 98 cents per share to 2017 comparable earnings.

Strategic focus

Our key strategic focus remains unchanged: distributing strong international branded products requiring added value in the form of instant availability and technical input. Thanks to our philosophy of carefully managing the relationship between margins, inventories and costs, businesses which find themselves currently serving low or no growth markets remain very cash generative. We will continue to use this cash to make accretive acquisitions that diversify and strengthen our overall offering. We will also continue to look for new markets and to grow the reach of our businesses geographically.

Lawsuit against Bravura and certain associates

The legal case against Bravura, Cadiz and certain of their associates for up to R490 million continues slowly. We are preparing for court, although a date for the matter to be heard has not yet been set. 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.

Prospects

Prospects for Hudaco in 2018 will depend on how the economy performs and that in turn depends largely on government policy and its implementation. The year has started off in a much more positive vein with consumer and business confidence increasing after the election of Cyril Ramaphosa as president of the ANC. There is a great deal of optimism that he will deliver good governance, eradicate much of the corruption, put in place policies that support economic growth and assign responsibility to competent people. Withdrawal of the controversial Mining Charter would be a case in point. If that perception becomes a reality then the optimism is likely to translate into investment in those sectors of the economy that are traditional Hudaco markets. That will enable those of our businesses that have been in austerity mode for the past few years to thrive once again. Many of our businesses are well placed to benefit immediately from such a scenario, while others will need to wait for the positive cycle to mature first. If industry is active, we will supply the replacement parts it requires. We also believe that these positive developments, if they eventuate, will be enough to counter the pressure on pricing resulting from a strong Rand. On the other hand, if the government just delivers more of the same, we will again have to fall back on strategic acquisitions to deliver growth. We are optimistic.

Appreciation

Once again, we thank the executives in all our businesses and their management teams for their sterling efforts in yet another challenging year for the group. As we have emphasized before, 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. It is through the dedication and hard work of all our staff throughout the group that we are able to navigate these challenging economic conditions. It goes without saying that we also value the co-operation and support from our loyal suppliers and customers, who are obviously also still operating in difficult times.

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.

Directorate

We thank Stuart Morris who retired from the board on 30 June 2017 for the significant contribution that he made to the group over the years and wish him well in his retirement. We welcome Mark Thompson as a member of the board, the nomination committee and the audit and risk management committee and as chairman of the remuneration committee.

Royden Vice, who has been an independent non-executive director since June 2007 and has served as chairman of the board since March 2008, has indicated that he will retire from the board after the annual general meeting in April 2018. He has been a great asset to the group and his contribution will be missed both personally and professionally. We are pleased to advise that Stephen Connelly, a non-executive director and former chief executive of Hudaco who knows the group intimately, will assume the chairmanship when Royden steps down. He will also chair the nomination committee. Daisy Naidoo will assume the role of lead independent non-executive director and will join the nomination committee. Nyami Mandindi will join the remuneration committee. All these appointments will take effect immediately after the annual general meeting.

RT Vice
Chairman

GR Dunford
Chief executive

1 February 2018

STRATEGIC FOCUS

2017

• Achieve branch synergies across businesses	✓	where appropriate
• Make further acquisitions	✓	
• Bolster senior executive team	x	in progress
• Succession planning for senior non-executive directors	✓	

2018

- Improve performance of six businesses that disappointed in 2017
- Achieve organic growth in engineering consumables businesses
- Increase overall operating margin
- Make further acquisitions
- Maintain Level 3 on dti scorecard

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 3 639 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, optimism for economic growth in South Africa, strength of the Rand and the status of our legal action against Bravura, in which we are seeking to recover secret profits and amounts settled with SARS. 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 against Bravura • 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 • Results presentations • 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. Covered by group life and disability assurance. Make use of corporate wellness initiatives to maintain a focus on executive health.	• 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 • Critical mass pricing advantage • Business model • Leadership succession planning, careers, knowledge management systems • Functional relationships with group management • Cash position during earn-out process • Remuneration • Wellness and health programmes • Group life and disability cover	• Integrated report • Results presentations (internal) • Management conferences • Personal contact • Retirement fund reports and information • Wellness days and 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 • Finance and 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. Covered by group life and disability insurance. Make use of corporate wellness initiatives.	• Career development • Leadership succession planning • Remuneration • Skills retention and development • B-BBEE • BEE bursary scheme • Health and safety • Wellness and health programmes • Group life and disability cover	• Integrated report • Policy documentation • Personal contact • Retirement fund reports and information • BEE bursary scheme communications • Wellness days and reports • Health and safety reports
Government	Tax collector, transformation regulator, education and training authority	Rely on Hudaco to collect and remit indirect taxes, to pay direct taxes, to progress transformation and to provide education and training programmes.	• VAT • PAYE • Income tax • Dividends tax • Customs duty • BEE • Learnerships and apprenticeships	• Statutory returns • Integrated reports • Results presentations • Correspondence • BEE certification • Employment equity reports • Workplace skills plans and reports

RISKS AND MITIGATION

Key risks

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

25
64

Risk	Explanation	Potential exposure	Mitigation	Residual risk assessment/ probability	Associated opportunity
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.	Without management intervention, for each 10% by which the Rand strengthens, operating profit could decrease by R175 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 and the consumer market.
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 occasionally 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.
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. On the new dti scorecard, we have achieved a level 3 rating, which has been very well received in the market.
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.	Highly unlikely.	Natural disasters in other parts of the world 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. A natural disaster locally may create demand for some of the products we sell.
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 6% to 10% of group operating profit, would be hard to replace. The portfolio also includes several other important brands.	Up to R65million 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, eg through international corporate activity.	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 16% 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.	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 (71)

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 2008.

Nonyameko "Nyami" Mandindi (51)

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 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 serves on the boards of Group Five (chairman of the board and its nomination committee) and Hyprop Investments. Other directorships include membership on several boards including Kusile Africa Development, Petals Global, SVA International and ITISA.

Nyami joined the board in June 2015.

Mark Thompson (65)

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

Mark served, *inter alia*, as chief financial officer of Sappi and group treasurer of Anglo American and, until recently, was member of the corporate and investment banking credit committee of Rand Merchant Bank and a non-executive director of Group Five and member of its audit committee, mergers and acquisition committee and chairman of its remuneration committee.

He currently holds non-executive positions with Rand Merchant Bank (member of the audit committee), FirstRand Insurance Services Company (member of the board and chairman of the audit, risk and compliance committee), Rockwood Private Equity (member of the board of one of its major unlisted investments) and is a trustee of a medical research foundation and a member of its investment committee.

Mark joined the board on 20 June 2017.

Dhanasagree "Daisy" Naidoo (45)

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 and STRATE. 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.

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 (66)

ACMA
Non-executive director and member of the remuneration committee and the nomination committee (chairman designate)

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.

He joined the board of Distribution Warehousing Network Limited (DAWN) as a non-executive director on 1 April 2016 and resigned on 31 January 2018. During that time he served as interim chief executive for a 10-month period.

Stephen joined the board in 1992.

EXECUTIVE DIRECTORS

Graham Dunford (53)

NDip: 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 (56)

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 (53)

NDip: Mechanical Engineering

Chief executive

29 years' service

JONNY MASINGA (40)

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

Group executive: Transformation and human resources

Seven years' service

BARRY FIELDGATE (56)

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

10 years' service

BRIAN CONSTANÇON (64)

BCom, BAcc, CA (SA)

Portfolio executive: Electrical power transmission and steel

35 years' service

CLIFFORD AMOILS (56)

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

Group financial director and chairman of Elvey Security Technologies

Nine years' service

REANA VAN ZYL (51)

BProc, LLB, HDip: Labour Law

Group secretary

Nine years' service

DAVID ALLMAN (59)

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

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

31 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 aftermarket
- Abes Technoseal
- Partquip

Batteries
- Deltec
- Eternity Technologies
- 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
- The Dished End Company
- 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

Comparable earnings per share 2017
1 251 cents
(2016: 1 171 cents)

Cash from operations in 2017 of **R711 million** exceeds operating profit of R676 million

Compound ceps growth for 10 years **8,3%** from 566 cents in 2007, compared with all share industrial index ceps growth of 6,9%

Return on equity **19%**

Clifford Amoils
Financial director

The key financial characteristics of the group are high returns on net operating assets and strong cash flows. These are used to invest in new businesses, particularly in times when organic growth is hard to come by, to fund additional working capital in periods of strong economic growth and to pay market-related dividends.

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, based on results to date, the latest estimate of the earn-out payments to be made to vendors of businesses acquired in recent years were different from the previous estimate. 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 2017 the gain increased basic and headline earnings per share by 6 cents, compared with 51 cents in 2016.
- 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 2017 is 1 251 cents as compared to 1 171 cents in 2016. Compound growth in comparable eps over the past 10 years has been 8,3%, from 566 cents in 2007.
- Hudaco aims to achieve earnings growth at a rate at least in line with the earnings of the All Share Industrial Index (J257). Since 2007, earnings in the J257 showed compound growth of 6,9%. 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 for so much of the 10-year period in what had been our core markets – 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 2017 was 18,7%.
- The main operating performance measure used by the businesses in 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 11,5%. 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 15% roughly equates to the 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 2017 the RONTA was 36% (2016: 35%).

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 560 cents and are made up of an interim dividend of 180 cents and a final dividend of 380 cents, representing a total of 45% of comparable earnings.

Cash flow

Hudaco businesses are cash generative. 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 R580 million, after investing R61 million in working capital and paying R131 million in taxation, was strong and once again demonstrates the cash-generative nature of Hudaco's businesses. R177 million was paid out as dividends, finance costs were R81 million and R47 million was spent on property, plant and equipment. R210 million was invested in new businesses, which included earn-out payments, share-based payment obligations of R16 million were settled and long-term borrowings were decreased by R35 million. After foreign currency translation gains of R4 million, net short-term borrowings decreased by R10 million to R185 million.

FINANCIAL REVIEW continued

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 2017, net borrowings amounted to R860 million, after the acquisitions in 2017 and 2016 of SS Telecoms, Commercial ICT, The Dished End Company, Eternity Technologies, MiRO, HERS, Brewtech and All-Trade. The interest rate on the R300 million credit facility with Rand Merchant Bank and the R500 million facility with Absa are JIBAR plus 1,44%. At year end JIBAR was 6,86%. 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. A term sheet has recently been signed with Nedbank for a further R500 million evergreen 367 day revolving credit facility at a rate of JIBAR plus 1,55%. The preparation of the full set of documentation is in progress.

Hudaco has the capacity to take on more senior debt and our acquisition strategy may create the opportunity to do this in future so we consider it prudent to have facilities available. 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% (2016: 27%). There are no existing factors that would result in the rate varying significantly from the normal rate.

The gross contribution to government in South Africa, comprising direct and indirect taxation, amounts to R640 million (2016: R536 million) for the year ended 30 November 2017. The composition of this figure is set out in the value-added statement on page 28.

28

Financial risk management

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.

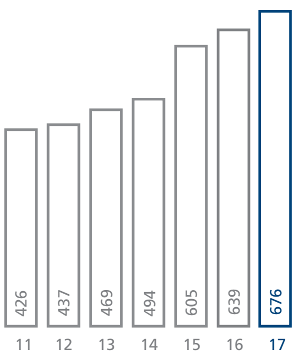
16, 17

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.

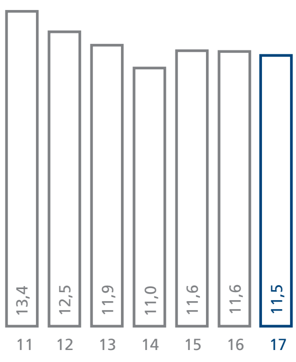
Group services

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, certain elements of the BEE scorecard, benchmarking and negotiation of leases for premises, 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

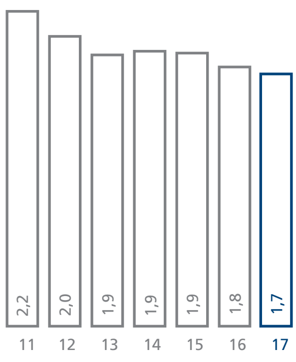
OPERATING PROFIT
(RM)



OPERATING PROFIT MARGIN (%)
OPERATING PROFIT/TURNOVER

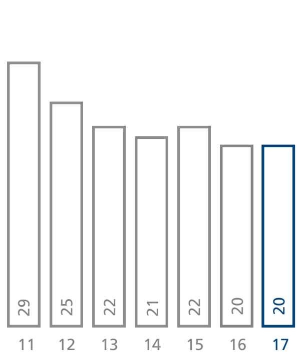


NOA* TURN (TIMES)
TURNOVER/AVERAGE NOA



** Net operating assets*

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



charges, rates of interest and insurance premiums as well as better risk benefits for employees by being part of the Hudaco group.

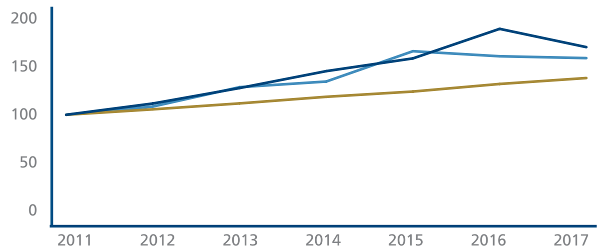
Impact of changes in foreign exchange rates

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 R175 million 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. 2017 has yet again seen 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.

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.

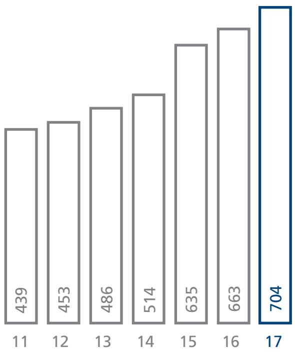
The volatility the currency has experienced has made pricing a challenge and margins have been kept under pressure, particularly in the weak economic environment that the region has experienced, driven primarily by low commodity prices and political uncertainty, both local and international. The graph 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 10% less in 2017 than in 2016. There has been further strengthening early in 2018.

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

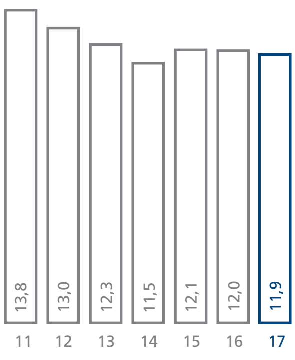


– Average currency index
– Average CPI
– Year end currency index

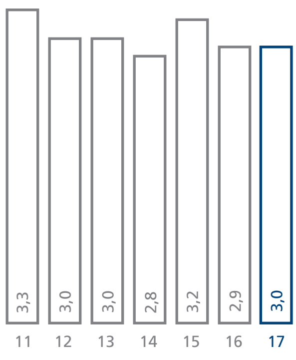
PBITA** (RM)



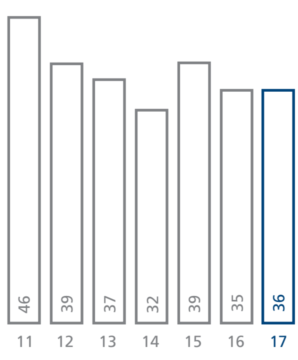
PBITA MARGIN (%) PBITA**/TURNOVER



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.

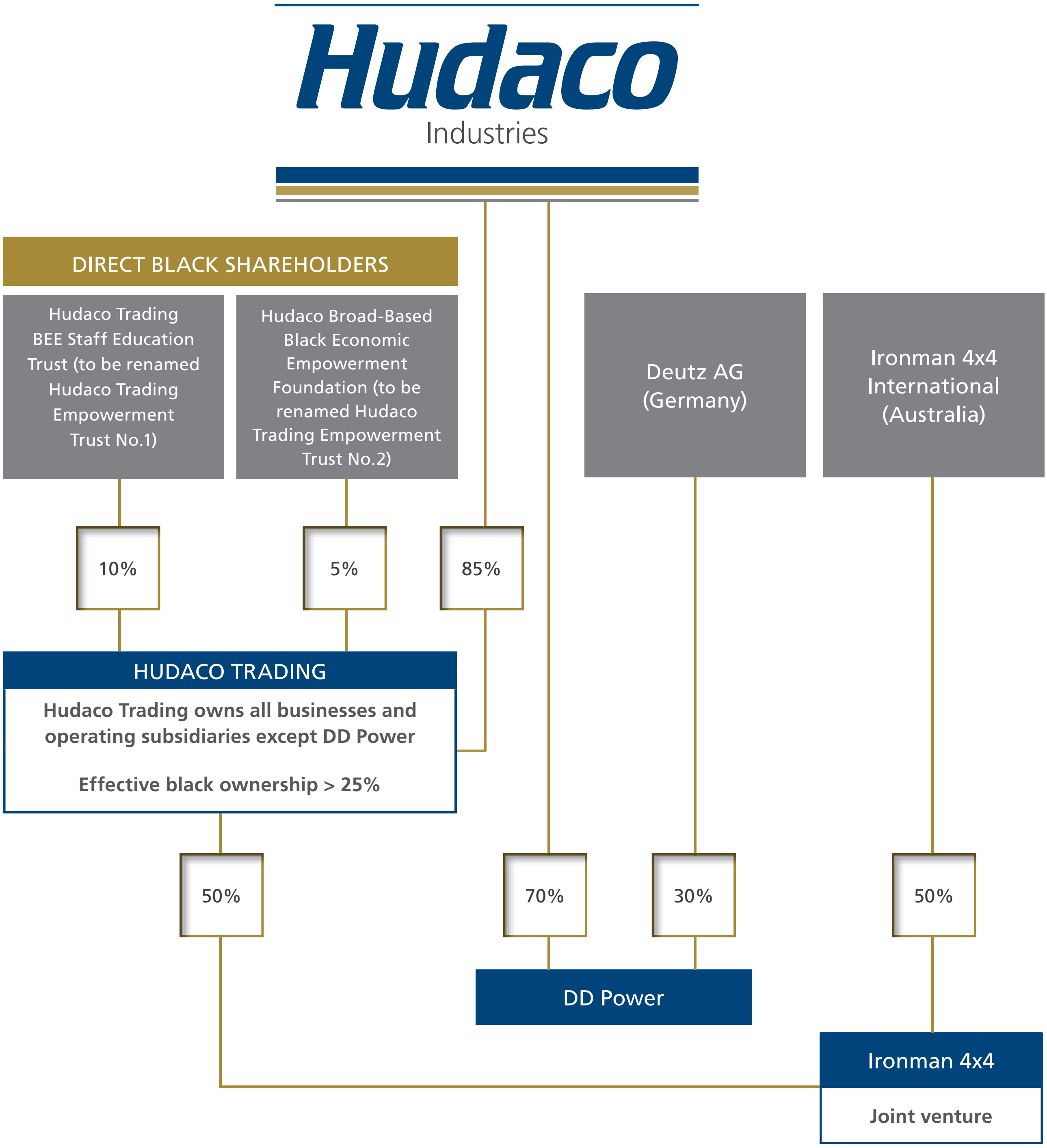
Response times to exchange rate fluctuations through pricing changes, both up and down, have traditionally been fairly quick (about three weeks to a month) but there is a built-in cushion in our five-month stockholding so prices on all products may not change at the same time.

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 pages 37 and 38.

37, 38

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. Also set out below is the amount retained and re-invested in the group for the replacement of assets and the further development of operations.

GROUP VALUE-ADDED STATEMENT

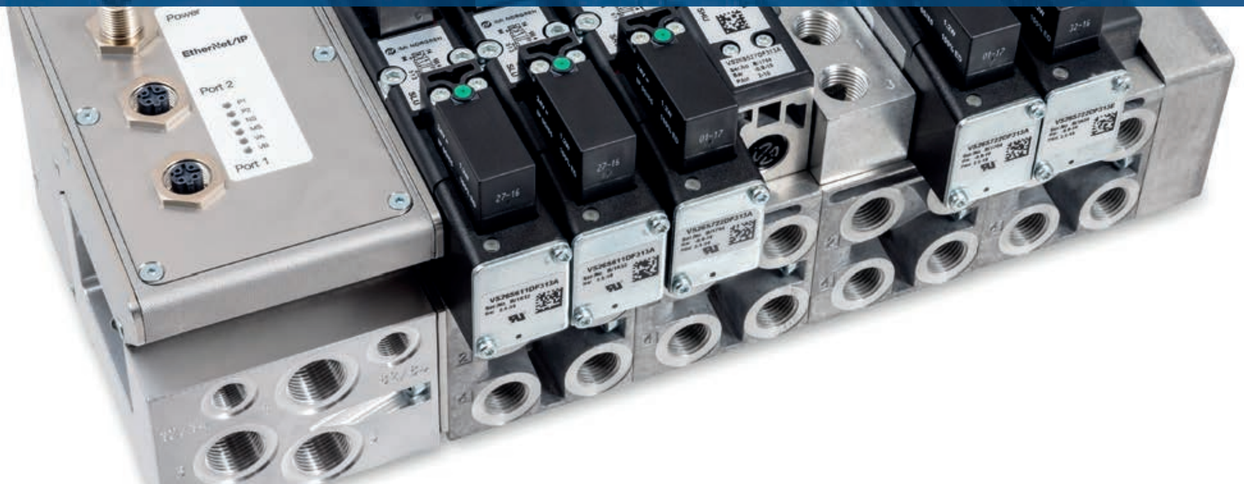
R million	2017	2016
Turnover	**5 902**	5 534
Less: Cost of materials, facilities and services from outside	**4 076**	3 867
Value-added	**1 826**	1 667
Capital items	**2**	19
Income from joint venture	**3**	3
Total wealth created	**1 831**	1 689
Distributed to:		
Employees – salaries, wages and other benefits	**1 076**	960
Government (gross contributions)	**640**	536
Indirect contributions, duties and levies	**(485)**	(389)
Net finance costs	**104**	101
Shareholders – dividends	**177**	174
Maintain and expand the group		
– profits retained	**245**	239
– depreciation and amortisation	**74**	68
Total wealth distributed	**1 831**	1 689

STATEMENT OF GROSS CONTRIBUTIONS TO THE GOVERNMENT IN SOUTH AFRICA

R million	2017	2016
Company income tax	**155**	147
Assessment rates	**5**	4
Customs and excise duty	**99**	84
Skills development levies, UIF and COIDA	**17**	16
Value-added tax not recognised as input credit	**3**	3
Direct contribution to government	**279**	254
Add the following collected on behalf of the government:		
Value-added tax (net)	**224**	155
Employees' tax and UIF	**137**	127
	640	536

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 is practised at all levels in the group and that it is an integral part of Hudaco's operations.



Each member of the board is committed to continue to individually and collectively cultivate and exhibit in their conduct the following characteristics: integrity, competence, responsibility, accountability, fairness and transparency.

Hudaco's values support the shift in King IV towards wider stakeholder inclusivity and enhanced corporate citizenship, which underpin Hudaco's reporting and engagement approach to a wider group of stakeholders. Doing business is about creating shared value and meeting responsibilities to contribute to economic development and give back to communities and the environment for the benefit of the wider stakeholder group.

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 IV

The King IV Report on Corporate Governance for South Africa (King IV) was published on 1 November 2016. A self-assessment was conducted against the relevant principles as well as the related recommended practices. The board is satisfied that the Hudaco group is in substantive alignment with the principles and is overseeing the adoption of relevant practices. The board is fully committed to the four outcomes: an ethical culture, good performance, effective control and legitimacy.

A report of Hudaco's application of and compliance with the King IV principles is set out on the Hudaco website.

Our governance framework and structure

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 remains committed to a governance philosophy that advocates high standards of leadership, ethics, integrity, accountability and responsibility. The framework adopted by the group articulates how decisions are made in compliance with legal and regulatory requirements.

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 published on Hudaco's website.

The board charter, which is aligned with the recommendations of King IV, the JSE Listings Requirements 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, delegated authority with respect to decision-making, the tenure, when and how the committee should be reporting to the board, access to resources and information, composition and procedures of each committee as well as arrangement for evaluating performance.

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

CORPORATE GOVERNANCE continued

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

Compliance management

The board is ultimately responsible for the governance of compliance with applicable laws and adopted, non-binding rules, codes and standards and has approved a corporate compliance policy that articulates and gives effect to the board's direction on compliance, and identifies which non-binding rules, codes and standards the board has adopted. The policy also sets out Hudaco's principles of business conduct.

Various other policies exist within the Hudaco group requiring compliance with applicable legislation and rules. The group secretary, various financial and human resources, internal audit and treasury functions assist operations in ensuring that legislation is complied with at all times by educating members of management and staff regarding legislative requirements.

Compliance reports are presented to the audit and risk management committee as well as the social and ethics committee. The board monitors compliance with:

- The JSE Listings Requirements: Hudaco, as a listed company is subject to, and remains compliant with, the JSE Listings Requirements in line with the advice of Hudaco's sponsor, Nedbank Corporate and Investment Banking.
- King IV: The board is satisfied that the Hudaco group is in substantive alignment with the principles and is overseeing the adoption of relevant practices.
- Companies Act: The Companies Act aims to promote good corporate governance and transparency in South African businesses. The audit and risk management committee as well as the social and ethics committee ensure compliance with all the relevant governance provisions of the Act.
- Other legislation: A board-approved compliance framework is implemented by Hudaco and its operating businesses in line with an annual compliance plan.

During the period under review Hudaco conducted targeted training on legislation covering, *inter alia*, the following topics: competition law, protection of personal information (POPI Act), health and safety, legal liability in the context of safety and the environment. The annual compliance certificate confirming Hudaco's compliance with the JSE Listings Requirements has been completed and submitted to the JSE. Neither Hudaco nor any of its directors or officers was subject to any material regulatory penalties, sanctions or fines for contraventions of, or non-compliance with, statutory obligations.

Focus areas for 2018 include the continued adoption of King IV practices, implementation of the POPI Act and ensuring full compliance therewith, ongoing training of employees on legislative compliance in identified areas and the review and updating of existing policies and procedures.

Board of directors

Board composition

Hudaco has a unitary board structure, comprising seven directors. Four are independent non-executive directors, one 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.

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. During the reporting period it was not required to appoint a lead independent director.

The chief executive's principal role is to provide leadership to the executive team in running the group's businesses.

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.

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 board considers and approves on an annual basis a delegation of authority framework and is satisfied that this framework has contributed to role clarity and the effective exercise of authority and responsibilities during the reporting period.

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 IV, which states that a non-executive director may be categorised as independent when the board concludes that there is no interest, position, association or relationship which, when judged from the perspective of a reasonable and informed third party, is likely to influence unduly or cause bias in decision-making in the best interest of the organisation.

Stephen Connelly was not considered independent as a result of his owning 274 139 Hudaco shares, the value of which is considered to be significant to his personal wealth.

King IV 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 2017 he had served 10 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.

CORPORATE GOVERNANCE continued

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.

During the period under review, material issues discussed by the board were determined by assessing the external environment, the needs and expectation of Hudaco's key stakeholders and other significant topics and or events. As always the key strategic focus remained the management of the relationship between margins, inventories and costs. A few strategic acquisitions were made that diversified and strengthened Hudaco's business and the group continued to add value to the product offering and grew the businesses where feasable.

Key focus areas for 2018 include:

- achieving organic growth, particularly if the trading environment improves;
- managing margins in the face of Rand strength;
- group transformation initiatives;
- improving the impact of the group on the environment; and
- ensuring King IV compliance.

The board is satisfied that it had fulfilled its responsibilities in accordance with its charter for the reporting period.

Board meeting attendance 2017

	Jan	Mar	Jun	Oct
RT Vice	✓	✓	✓	✓
CV Amoils	✓	✓	✓	✓
SJ Connelly	✓	✓	✓	✓
GR Dunford	✓	✓	✓	✓
N Mandindi	✓	✓	✓	✓
SG Morris*	✓	x	✓	n/a
D Naidoo	✓	✓	✓	✓
MR Thompson^	n/a	n/a	✓	✓

** SG Morris retired on 30 June 2017*
^ MR Thompson joined on 20 June 2017

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 recruitment assessment 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.

In 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 and race diversity in order to discharge its duties and responsibilities effectively.

The nomination committee discusses and agrees annually all measurable objectives for achieving gender and race diversity on the board and recommends them to the board for adoption. In respect of gender diversity, the board aims to ensure that at least 25% to 30% of the board of Hudaco Industries is made up of women. At the date of this report, women made up 28,6% of Hudaco's board.

Stuart Morris retired from the board at the age of 72 during June 2017. Mark Thompson joined the board in his stead and was also appointed as chairman of the remuneration committee and member of the audit and risk management committee as well as the nomination committee.

On 1 February 2018 Royden Vice, who has been an independent non-executive director since June 2007 and has served as chairman of the board since March 2008, indicated that he would be retiring from the board after the annual general meeting in April 2018. Stephen Connelly, a non-executive director and former chief executive of Hudaco will assume the chairmanship when Royden steps down. He will also chair the nomination committee. Daisy Naidoo will take on the role of lead independent non-executive director and will join the nomination committee. Nyami Mandindi will become a member of the remuneration committee. All these appointments will take effect after the annual general meeting.

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 so it 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.

The board further oversees that key management functions in Hudaco are headed by individuals with the necessary competence and authority and that they are adequately resourced. There is succession planning in place for executive management and other key positions to provide continuity of leadership. Succession plans are reviewed periodically and provide for both succession in emergency situations as well as succession over the longer term.

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.

Evaluation

Formal board and committee assessments are conducted every second year in the form of written responses and/or a one-on-one interview conducted by the chairman with each member of the board. Every alternate year, the board considers its progress against agreed outcomes of the prior evaluation process, if any. The evaluation of the chairman is conducted by the board.

The last formal board and committee assessments were conducted in January 2017. The assessments were crafted into a questionnaire which incorporated clearly defined areas to be evaluated. All the board members completed the questionnaire. The following areas were assessed: board role and agenda setting; size, composition and independence; director orientation, training and development; board leadership, teamwork and management of relations; board committee meetings; evaluation and fees; leadership pool, succession planning and sustainable growth; values and stakeholders. The questionnaire ended with comments on overall performance.

The board members reviewed the summary of the combined results which, in general, pointed to an efficient and effective board. However, the following areas were identified: succession planning; size of the board and interaction between the board members and members of top senior management. During 2017 the succession plans for the executive directors and top senior management were updated: Mark Thompson was appointed as an independent non-executive director to succeed Stuart Morris on his retirement in June 2017; Stephen Connelly was identified to replace Royden Vice as chairman in due course and board members were invited to more opportunities where they could interact freely with top management.

At its board meeting in February 2018 the board reflected on its performance during the previous year and considered whether progress had been made with regard to the areas identified during the previous assessment. After an open discussion at the board meeting it was concluded that the board continues to function efficiently and effectively.

THE REMUNERATION COMMITTEE

The members of the committee for the year under review were: Stuart Morris, Royden Vice, Mark Thompson and Stephen Connelly. Stuart chaired the committee until his retirement on 30 June 2017. Mark Thompson became a member of the committee on 30 June 2017 and was appointed as chairman on 1 November 2017. Stephen Connelly joined the committee on 1 November 2017. All the members are non-executive directors and only Stephen is not independent.

The chief executive attends the meetings by invitation and is not present during discussions of his own remuneration. The committee meets twice a year, unless additional meetings are required. Commencing January 2018, the group financial director was also requested to attend committee meetings, subject to recusal at appropriate times.

The committee operates under a board-approved mandate and the terms of reference was reviewed and updated in 2017 to align its activities with the principles contained in King IV. The committee does not assume the functions of management, which remain the responsibility of the executive directors and other members of senior management.

Remuneration committee meeting attendance 2017

	Jan	Jun
SG Morris	✓	✓
RT Vice	✓	✓
MR Thompson	n/a	By invitation

The remuneration report can be found on pages 40 to 53 of this report.

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CORPORATE GOVERNANCE continued

THE NOMINATION COMMITTEE

The members for the period under review were Royden Vice (chairman), Stuart Morris, Stephen Connelly and Mark Thompson. Stuart Morris retired on 30 June 2017 and was replaced by Mark Thompson on 30 June 2017. Stephen Connelly was appointed to the committee with effect from 1 November 2017. All the members, with the exception of Stephen Connelly, are independent non-executives.

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.

The committee assists the board in ensuring that:

- the board has the appropriate composition to execute its duties effectively. 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, diversity, 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;
- each potential director meets the appropriate fit and proper test;
- directors are appointed through a formal and transparent 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.

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 IV 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.

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.

Nomination committee meeting attendance 2017

	Jan	Jun
RT Vice	✓	✓
SG Morris	✓	✓
MR Thompson^	n/a	By invitation

^ MR Thompson joined on 30 June 2017.

During the period under review, the nomination committee assisted the board with board and committee evaluation, and addressing the findings thereof. They reviewed succession planning for the executive directors and key management positions and made recommendations for non-executive director appointment and succession of the chairman of the board. It formulated the board diversity policy and aligned the terms of reference of the committee with King IV and the JSE Listings Requirements.

Focus areas for 2018 include the expansion of the board diversity policy to include race requirements and targets, recommending the appointment of additional non-executive directors if required, board and committee evaluations and ensuring that appropriate succession plans are in place for senior management and the board.

The board is satisfied that the nomination committee had fulfilled its responsibilities in accordance with its terms of reference for the reporting period.

AUDIT AND RISK MANAGEMENT COMMITTEE

The members of the committee during the 2017 financial year were Daisy Naidoo (chairman), Stuart Morris (until 30 June 2017), Nyami Mandindi and Mark Thompson, who joined the committee on 30 June 2017.

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 October 2017, when they were aligned with the requirements of King IV and the JSE Listings Requirements.

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 IV 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:

- After reviewing the audit firm's and designated individual partner's suitability for appointment in terms of paragraph 22.15(h) of the JSE Listings Requirements, 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 2018 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. In considering Grant Thornton's independence the committee considered the fact that they had been Hudaco's auditors for a period of 32 years and that Vanessa de Villiers is due to be rotated after the 2020 audit.
- The committee took cognisance of the fact that the introduction of mandatory audit firm rotation dictates that Hudaco will be compelled to appoint new auditors by 2023 at the latest, notwithstanding that Grant Thornton has provided exemplary service over the past 32 years. The committee agreed that preparation for the rotation will commence well in advance and that, in all likelihood, the change will be made earlier than 2023. A plan will be developed during 2018.
- 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. During the period under review no significant non-audit-related services were rendered by Grant Thornton.
- Budgeted audit fees for the financial year ended 30 November 2017 were approved and the scope of the proposed audit work was agreed.
- The committee confirmed the independence of the internal audit function and satisfied itself that internal audit is functioning effectively. In addition, it ensured that the internal audit function was subjected to an independent quality review, which was conducted by BDO. The findings were very positive.
- 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.
- The committee considered and noted the key audit matters as determined by Grant Thornton.
- 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 oversees that a combined assurance model is applied which enables an effective internal control environment, supports the integrity of information used for internal decision-making and supports the integrity of related external reports. Through formal reports in committee papers and the attendance

CORPORATE GOVERNANCE continued

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 and 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. During the year the combined assurance model was reviewed and the committee was satisfied that the financial risks and financial reporting risks were appropriately reflected therein.

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 risk;
- provided board level oversight of the management of sustainability issues; and
- ensured that technology and information governance 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 2017

	Jan	Jun	Oct
D Naidoo	✓	✓	✓
N Mandindi	✓	✓	✓
SG Morris*	✓	✓	n/a
MR Thompson^	n/a	By invitation	✓

** SG Morris retired with effect from 30 June 2017*

^ MR Thompson joined the committee on 30 June 2017

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 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.

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 and is not expected to be concluded soon.

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. In June 2017 Ernest Lowe was granted final immunity based on the leniency application. 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.

Technology and information governance

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;

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- 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.

During 2018 the IT governance committee will focus on updating its charter to bring it in line with King IV requirements. In its activities it will specifically address the separate emphasis on information, as distinct from technology.

EXECUTIVE COMMITTEE

The members of the committee are: Graham Dunford (chairman), David Allman, Clifford Amoils, Brian Constançon, Barry Fieldgate, Jonny Masinga and Reana van Zyl. The head of internal audit and other senior managers have a standing invitation to attend the meetings.

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 2017

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

REPORT OF THE SOCIAL AND ETHICS COMMITTEE

As a responsible corporate citizen, Hudaco is commited to ethical leadership and the demonstration of sound corporate governance practices, underpinned by the group's values.

Composition and terms of engagement

The members of the committee during the 2017 financial year were Nyami Mandindi (chairman), Clifford Amoils, Brian Constançon and Daisy Naidoo. Brian Constançon stepped down as member in October 2017 as a result of the King IV requirement that the committee should consist of only directors.

The chairman and one other member of the committee are independent non-executive directors, while the remaining member is an executive director. The committee meets twice a year and reports to the board. Meetings are also attended by the Hudaco group secretary, transformation and human resources executive and the executive responsible for health and safety and environmental issues, Mike Allnutt. 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.

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 impact;
- consumer relations; and
- labour and employment, including skills development.

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

Role and responsibilities

During the 2017 financial year the committee met twice at which meetings performance in the following areas were 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;
- health and safety; and
- environmental impact.

The committee's terms of reference were also reviewed and amended to bring it in line with King IV requirements.

The committee confirms that it has discharged its responsibilities appropriately. Management has confirmed that there has been no material non-compliance with legislation or regulations which are within the remit of the committee's mandate. In addition, there have not been any infringements of the relevant governance codes, and no material issues were identified during the year under review. Accordingly, the committee confirmed that Hudaco remains a responsible corporate citizen and that the group will continue its efforts to further create value and contribute positively to the environment, social and governance imperatives.

At the forthcoming annual general meeting, scheduled to take place on 5 April 2018, 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 regarding Hudaco's performance with respect to the key focus areas of this committee.

Focus areas for 2018 include monitoring the group's responsible and transparent tax practices and monitoring the application of Hudaco's ethical standards to the processes for recruitment, evaluation of performance and the fair reward of employees as well as the sourcing of suppliers.

Social and ethics committee meeting attendance 2017

	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 2017 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. 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 81.

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

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

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

REMUNERATION REPORT

The release of King IV on 1 November 2016 has resulted in a review of the terms of reference of the remuneration committee (the committee) to align its activities with the principles contained in King IV. It has also resulted in the changing of the structure of Hudaco's remuneration report and the level of detail provided regarding the remuneration of executives.

The report now comprises three sections:

- A background statement by the chairman of the committee;
- The remuneration policy; and
- Implementation of the remuneration policy.

SECTION 1: BACKGROUND STATEMENT

Remuneration in context of the group and the workforce

Over many years, the group has refined its remuneration policy and practices in support of its aim to be a thriving, growing company which is highly dependent for its success on the quality and motivation of its people. The group believes that its remuneration practices are very much in line with the King IV remuneration governance principles, and that these principles underpin the achievement of its business objectives, its ethical culture and the fair reward of its employees.

Employee compensation is the single largest component of the group's operating expenses. During the 2017 financial year, employees received approximately 60% of the total wealth created by the group. (See the value-added statement on page 28 of this integrated report.) The table below provides further context to the significance to Hudaco of employee remuneration:

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	2017	2016
Total number of employees	**3 930**	3 417
Total compensation to employees (Rm)	**1 076**	960
Total compensation as a % of revenue	**18**	17

For the general body of employees the group's remuneration policies aim to attract and retain high calibre people and reward them fairly for their skills and performance and to provide a happy and challenging work environment. All of Hudaco's employees have the opportunity to receive short-term bonus awards.

At executive director, executive committee and top senior management level – consisting of 13 employees – the remuneration policy is designed to more sharply:

- reflect group and relevant business unit performance; and
- incentivise these employees to act in the best long-term interest of shareholders via performance measures that stress earnings growth and the returns earned by the businesses for which they are responsible. These measures are described in more detail further on in this report.

The compensation of most of the group's unionised employees (approximately 600 people) is determined collectively, or based on sector norms. Hudaco endeavours to maintain positive day-to-day working relationships with unionised employees and to balance their right to industrial action with the right of the group to conduct its activities.

Internal and external factors that influence remuneration

In discharging its duties the committee considers various factors, including general economic and business conditions, past and expected performance of the group and the business unit concerned, the inflation outlook, the employment market conditions and trends and, importantly, the pay gap that exists in the group and the business sector generally.

Where considered necessary, the committee seeks the advice of experts in regard to these factors, particularly concerning conditions of employment, fair pay and trends.

Over the past few years the group's response to the pay gap issue has been to grant higher average salary increases to lower paid employees than to their more senior colleagues who participate in the executive pay schemes. During the forthcoming year, the committee will strive to get a better understanding of this issue and the options available to deal with it.

Most recent results of voting

At the annual general meeting held on 29 March 2017, the group's remuneration policy and its implementation received the support of 71,17% of shareholders who voted. Consequently, it was identified that, in their Proxy Analysis & Benchmark Policy Voting Recommendations, Institutional Shareholder Services Inc (ISS) recommended that shareholders vote against the Hudaco remuneration policy and cited the absence of a suitable explanation for a one-off additional share matching opportunity as the reason. This was indeed a one-off opportunity and therefore has not been repeated so we would hope that this would enable ISS to recommend votes in favour of both the policy and its implementation at the forthcoming annual general meeting.

Key areas of focus and key decisions

During the year the committee focused on:

- providing general salary increase guidelines;
- conducting performance appraisals for the CEO, financial director, other executive committee members and approximately six of the other most senior executives in the group ("senior executives");
- reviewing the guaranteed remuneration packages of the senior executives;
- approval of incentive bonus payments to senior executives for the previous year, including any amounts subject to claw-back;
- approval of performance arrangements for the year ahead for the senior executives;
- confirmation of share matching opportunities in terms of the share matching scheme, arising from short-term incentive bonuses earned;
- allocation of share appreciation rights;
- reviewing service agreements of the senior executives with special reference to restraint of trade clauses, severance packages (if any) and notice periods;
- proposing non-executive directors' fees; and
- reviewing the remuneration report for publication in the 2017 integrated report to ensure that it complied with King IV principles on remuneration and the JSE Listings Requirements.

In July 2017, the committee approved average annual salary increases of 7% for the main body of employees and an average of 6% for the senior executives. A more substantial adjustment was made to the chief executive's guaranteed remuneration to position his remuneration more appropriately within the market range. This is fully explained in the implementation of the remuneration policy section on page 45.

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The short-term bonuses for the senior executives (R17 million in respect of the 2017 financial year) are largely formula-driven on criteria set at the beginning of the financial year. To the extent that the committee did exercise its discretion in awarding short-term bonuses, it did so taking into account the solid performance of the group and most of its businesses in very difficult trading conditions.

The implementation section of this remuneration report sets out in the required detail the remuneration of the chief executive, the chief financial officer and the three next most senior executives in the group.

Future areas of focus

The remuneration committee is committed to continued improvement and forward-looking principles. Specifically:

- From the annual general meeting in April 2018 onwards, Hudaco will put its remuneration policy, as well as the associated implementation report contained in the remuneration report to two separate non-binding advisory votes and will engage with the shareholders as necessary in the event of any significant dissenting votes on either.
- The remuneration policy and framework will be reviewed against market best practice and governance principles. The committee will assess the variable pay performance conditions and the efficacy of the share appreciation bonus scheme.
- The principle of fair and responsible remuneration, and the pay gap in particular, will be considered in more detail in 2018.

Remuneration consultants

In order to ensure remuneration is fair and market related, all elements of remuneration are subject to regular benchmarking exercises. At least every two years the committee engages remuneration consultants to benchmark remuneration against an appropriate peer group and to provide input on recent trends. This was done in June 2016 by Khokhela Consulting and the committee satisfied itself that the consultants were independent and objective. The exercise will be repeated in 2018. The guaranteed remuneration of the chief executive was benchmarked by Khokhela in January 2018.

Achievement of stated objectives

Hudaco is strongly of the view that pay, working conditions and, at senior executive level, well considered performance measures linked to variable pay, are strong drivers of behaviour and performance.

The committee remains confident that Hudaco's remuneration policy is generally well aligned to its strategy and the interests of its stakeholders and has contributed to Hudaco's growth and resilience in a challenging economic climate. Accordingly, we are satisfied that the remuneration objectives for the 2017 financial year were achieved.

MR Thompson

Chairman of the remuneration committee

1 February 2018

REMUNERATION REPORT continued

SECTION 2: THE REMUNERATION POLICY

Hudaco has an integrated approach to remuneration strategy, in which remuneration components are aligned to strategic direction and financial returns. The group's remuneration philosophy is to ensure that employees are rewarded appropriately for their contribution to the execution of the strategy of Hudaco.

The remuneration policy had been designed to continue to attract, engage, retain and motivate the right diverse talent required to deliver sustainable growth and acceptable returns. The policy recognises and rewards individual responsibility, performance and behavior in the achievement of Hudaco's goals. The policy is applicable to all group employees but participation in short and long-term incentive schemes is dependent on an individual's role and level within the group.

The remuneration policy and the implementation thereof are focused on achieving a fair and sustainable balance between fixed guaranteed remuneration, short-term incentives and long-term incentives, having regard for the person's responsibilities.

Some of the principles adopted by Hudaco to drive fair and responsible remuneration, include:

- equal pay for work of equal value specifically addressing any income disparities based on gender or race;
- all employees of Hudaco having the opportunity to receive short-term bonus awards;
- annual salary increases on base salary being granted based on market conditions;
- up-skilling of low paid employees;
- consideration being given to minimum wage legislative requirements; and
- all permanent employees having the opportunity to participate in benefits such as retirement funding, risk benefits and medical aid.

Hudaco is keenly aware of the wage gap within the group, and therefore ensures that the percentage increases in base salary awarded to purely salaried employees are generally greater than those awarded to the executive and senior management tier.

During the 2018 financial year these principles will be reviewed further and processes to measure fair and responsible remuneration in a manner which is relevant to Hudaco's business model will be implemented, where appropriate.

Determination of performance incentives

Hudaco has various formal and informal frameworks for performance management that are directly linked to increases of fixed guaranteed remuneration and annual short-term incentive bonuses. Performance management and assessment sessions take place regularly throughout the group, where business performance, personal achievement of key performance indicators and delivery on key strategic imperatives are discussed.

Overview of remuneration

Hudaco's employees are critical to the achievement of the group's strategic objectives. Many of the business-critical skills that we require are in short supply and Hudaco recognises the importance of attracting, developing and retaining the best people to deliver on the group's business goals.

Employee remuneration, particularly fixed guaranteed remuneration, is a significant component of the group's total operating cost. Remuneration is structured to be competitive and relevant in the sectors in which the group operates. Variable remuneration, which pertains primarily to more senior tiers, has the advantage of serving as an automatic cost reduction mechanism when returns are under pressure.

General employees' remuneration

The total remuneration mix for general employees consists of guaranteed pay and benefits (fixed guaranteed remuneration) as well as a short-term bonus award.

Fixed guaranteed remuneration is monitored and benchmarked on a regular basis. Remuneration levels take into account industries, sectors and geographies from which skills are acquired or to which skills are likely to be lost, the general market and the market in which each business operates. It is designed to meet each business' industry and operational needs as well as strategic objectives. The structure for unionised employees is driven by collective bargaining and sectoral determinations. General adjustments to guaranteed pay are effective from 1 July each year. In unionised environments, collective bargaining arrangements may come into operation at other agreed times. Annual increase parameters are set using guidance from group budgeting processes, market movements, individual performance, the performance of the business and any other relevant factors. Increases above inflation depend on the factors set out above.

Hudaco pays short-term bonuses aligned to best practice and in some cases this may include a guaranteed bonus equal to one month's salary. However, in the majority of cases bonuses depend on the performance of the individual and the business in which they are employed.

Employees at the level just below senior managers also qualify for the long-term incentive scheme.

Other benefits include pension and provident fund membership, medical aid membership and medical expense gap cover, death and disability insurance, funeral cover and in some cases travel allowances or the use of company owned vehicles. Hudaco considers the provision of these benefits to be socially responsible employment practice.

Executive and senior management remuneration

Executives are responsible for leading others and taking significant decisions about the short and long-term operation of the business, its assets, funders and employees. They require specific skills and experience and are held to a higher level of accountability. Hudaco's remuneration policy is formulated to attract and retain high-calibre executives and motivate them to develop and implement the group's strategy to optimise long-term shareholder value. It also seeks to align the entrepreneurial ethos and long-term interests of the executive directors and senior management with those of the shareholders, while not diluting the equity stake of existing shareholders. 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 remuneration policy is structured around the following key principles:

TOTAL REWARDS	INCENTIVE BASED REWARDS	INCENTIVE PLANS, PERFORMANCE MEASURES AND TARGETS	THE DESIGN AND IMPLEMENTATION OF LONG-TERM INCENTIVE SCHEMES
Set at levels that are responsible and competitive within the relevant market.	Capped and earned through the achievement of demanding growth and return targets consistent with shareholder interests over the short, medium and long-term. They include an element of potential claw-back.	Structured to operate soundly throughout the business cycle.	Prudent and do not expose shareholders to dilution or unreasonable financial risk. While they are defined as equity-settled, it is policy not to issue new shares but to rather acquire shares in the market.

The group's general philosophy for executive remuneration is that the performance-based pay of executive directors and senior managers should form a significant portion of their expected total compensation. There should also be an appropriate balance between rewarding operational performance (through annual incentive bonuses) and rewarding long-term sustainable performance (through share-based incentives).

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

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 having regard for 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.

Fixed guaranteed remuneration

Past and expected future performance of each executive as well as inflation and benchmarking against salary trends are used as a basis for remuneration reviews. Other benefits funded from the total cost-to-company fixed remuneration package include a provident fund with group life and disability insurance, funeral cover, medical aid membership, medical expense gap cover and travel allowances or, in some cases, the use of a company-owned vehicle. Providing these benefits is considered to be market competitive.

Short-term performance-based remuneration

All executives and senior managers are eligible to receive a performance-related annual bonus. The bonus is non-contractual and not pensionable. The remuneration committee reviews bonuses annually and determines the level of each bonus based on performance criteria set at the beginning of the performance period.

Short-term performance-related remuneration for the chief executive and the financial director is currently based primarily on a pre-determined return on equity range, which is capped, and the achievement of comparable earnings per share growth. For 2018 no ROE bonus will be paid if ROE is below 14% and the primary target is 18%. As a stretch target, a cap will be reached at ROE of 24%. While the payment for comparable earnings per share growth is not capped, it is subject to partial claw-back.

A portion of the executive directors' possible performance-related earnings is subject to the achievement of non-financial objectives, determined from time to time but at longest annually, up to a maximum of 25% of fixed guaranteed remuneration.

For top senior managers, performance-based remuneration is linked to a combination of the achievement of appropriate returns on net tangible operating assets (capped) and annual growth in operating profit (uncapped) in the businesses under their direction. A portion of top senior managers' potential performance-related earnings is subject to the achievement of non-financial objectives, determined from time to time but at longest annually, up to a maximum of 14% of fixed guaranteed remuneration.

For 2017, 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 comparable earnings per share 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" in full if 2018 ceps are not more than 95% of 2017 ceps. The "claw-back" is reduced on a straight line basis until 2017 ceps is at least matched. For top senior managers the percentage is up to 80% of guaranteed remuneration – otherwise the same rules apply, with the "claw-back" pertaining to operating profit.

Where considered appropriate (which is rare), the committee may pay discretionary bonuses based on an assessment of personal performance. As a retention and strategic alignment strategy, top senior managers are required to invest a portion of their bonuses in Hudaco shares. Refer to long-term remuneration on page 44.

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REMUNERATION REPORT continued

Long-term remuneration

Long-term performance-related remuneration is linked to the appreciation of the Hudaco share price. There are two long-term schemes: share appreciation bonus rights as a long-term performance incentive and a share matching scheme for retention and executive "skin in the game".

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 (calculated on a 10-day VWAP) 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 top senior managers is based on their level of seniority and fixed guaranteed remuneration. The performance requirement for grants awarded since 2017 to vest, which applies only to executives and top senior management (13 people), is set by the committee and comprises two elements:

- Up to 70% is dependent on the achievement of an average return on equity of 18% per annum from the date of award to the vesting date; and
- Up to 30% is dependent on the achievement of a cumulative increase in comparable earnings per share of CPI plus currently 3% per annum between the date of the award and the vesting date. For grants awarded in better economic conditions the requirement is higher at CPI plus 5%.

The remuneration committee determines an appropriate performance level for each award based on conditions prevailing at the time it is made and the requirement is not changed thereafter.

Share appreciation rights are awarded to executive directors, other executives, senior managers and the level of employees directly below the senior managers (approximately 220 people).

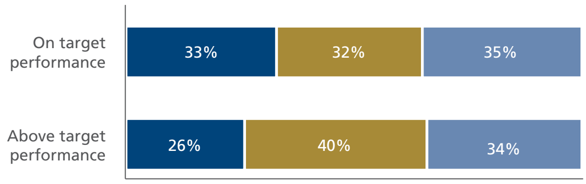
In order to serve as a retention strategy, to align better the interests of the executives with those of shareholders and to ensure that the executives have capital at risk in Hudaco, a share matching arrangement was introduced for executives and top senior managers (the 13 most senior people), who must be 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 pre-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 participant, at the end of three years.

If a participant's employment terminates due to resignation or dismissal before the vesting date, all unvested share appreciation rights and share matching rights are cancelled.

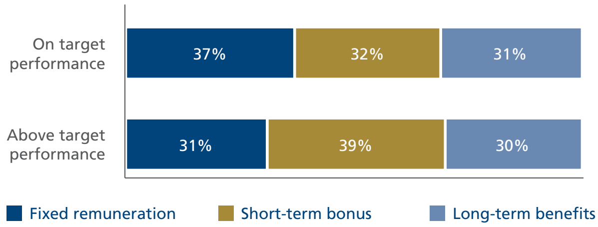
Comprehensive remuneration of the executive directors

The breakdown of the potential comprehensive remuneration of the chief executive and group financial director can be depicted graphically as follows:

Chief executive



Group financial director



Service contracts of executives

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 of control of the company, share appreciation rights vest, but there are no other contractual payments due.

Graham Dunford, the chief executive, has a restraint of trade agreement that applies for three years after termination of employment.

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. They understand their duties and responsibilities and what is expected from them as non-executive directors.

The non-executive directors are paid a base fee and are required to forfeit a specific penalty for non-attendance of a meeting.

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 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.

Non-binding advisory vote

In line with King IV, Hudaco will table its remuneration policy and implementation report for two separate non-binding advisory votes at the upcoming annual general meeting. If 25% or more of the shareholders vote against either resolution at the annual general meeting, the board will invite the identifiable dissenting shareholders to engage with the remuneration committee on their issues.

SECTION 3: IMPLEMENTATION OF THE REMUNERATION POLICY

The group had no prescribed officers for the financial year. Prescribed officers are persons, not being directors, who either alone or with others exercise executive control and management over the whole or a significant portion of the business of the company.

During the year under review, no executive director's employment or office was terminated and no payments were made in this regard. No *ex gratia* payment was made to any director or other executive.

There was no deviation from the remuneration policy and the committee is satisfied that the remuneration policy achieved its objectives in the 2017 financial year.

Fair and responsible remuneration

Hudaco has started to formalise its strategy for fair and responsible remuneration within the group. The executive directors and members of senior management were generally granted 6% increases on fixed guaranteed remuneration. Increases on fixed guaranteed remuneration averaging 7% were granted to the general employees within the group, with differentiation based on performance.

In 2017, 698 950 share appreciation rights were awarded to a total of 219 people. For the share appreciation rights awarded to 12 executive directors and top senior managers to vest, performance conditions must be met. Rights awarded to the other 207 participants do not have performance conditions.

We will continue to work on gleaning a better understanding of the elements driving changes in the pay gap.

Executive directors' remuneration for the period ending 30 November 2017

Graham Dunford – Group chief executive

R000	Fixed remuneration	Retirement fund contributions	Other benefits	Short-term incentive bonus	Total before share-based payments	Value of long-term incentives awarded during the year	Total remuneration
2017	**4 294**	**551**	**203**	**5 000**	**10 048**	**5 664**	**15 712**
2016	3 985	502	185	3 900	8 572	7 774	16 346

Fixed guaranteed remuneration and benefits

When Graham was appointed chief executive in July 2014, he did not yet have experience or a track record at that level within a listed group. Thus the remuneration committee at the time felt it appropriate to remunerate him at a lower level in the comparative band. This was to allow a period for him to prove his worth at the top level. Since then, his market positioning has improved to some extent but the remuneration committee is now satisfied that there is no longer any justification for it to be lower than normal. Over the past 3½ years, Graham has proved himself to be a highly competent and suitable leader who has implemented a successful strategy of growth through diversification that has stood Hudaco in good stead through harrowing economic conditions in the markets it serves. The group's annual turnover has increased 40% with him at the helm.

Accordingly, Khokhela consulting was engaged to benchmark his fixed guaranteed remuneration against the comparable market, after which exercise it has been increased with effect from 1 January 2018 by 9,5% to R5,57 million, a level considered appropriate and within the third market quartile.

As part of the exercise to normalise his positioning referred to above, Graham's guaranteed remuneration was increased by 10% with effect from 1 July 2017 from R4,77 million to R5,25 million, instead of the 6% afforded to most of the other executives.

REMUNERATION REPORT continued

Annual short-term incentive bonus

The following short-term incentive performance criteria and weightings, as determined by the remuneration committee, were used to calculate Graham's annual bonus which amounted to R5 million (2016: R3,9 million):

2017 Measure		Measure achieved 2017	Maximum bonus % available	Bonus % achieved
Measurement	**Target**			
Return on equity	Primary – 18% Stretch – 24%	18,7%	54%	45,3%
Increase in ceps	Primary – 15% Stretched – uncapped but subject to claw-back	6,8%	73%	27,2%
Personal non-financial objectives			25%	22,7%
Total percentage of guaranteed fixed remuneration			152%	95,2%

Share appreciation bonus scheme

In line with long-term incentive benchmarks for executive directors, on 24 July 2017 Graham was awarded 105 000 share appreciation bonus rights to be measured off a 10-day VWAP base of R125,10. Subject to the performance criteria, one-third of the allocation will vest three years from the allocation date with another third vesting at the end of year four and the balance at the end of year five.

On 27 February 2017 Graham exercised 8 666 rights awarded in 2011 at a base price of R81,05 per right. These rights were exercised at a 10-day VWAP of R137,93, resulting in a gain of R499 148, settled by the delivery of 3 573 Hudaco shares, acquired by the company in the open market.

Graham Dunford has 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	Prospects of meeting performance requirements	Estimated value at 30 Nov 2017 R000
2017										
	483 986		**105 000**	**8 666**	**580 320**					
	960	**50,50**			**960**	**01 Jul 09**	**3**	**Jul 12 – Jul 18**	**Nil**	**Nil**
	8 666	**81,05**		**8 666**		**13 Jul 11**	**3**	**Jul 14 – Jul 20**	**n/a**	**n/a**
	32 000	**109,26**			**32 000**	**27 Jul 12**	**3**	**Jul 15 – Jul 21**	**Nil**	**Nil**
	28 000	**90,80**			**28 000**	**12 Jul 13**	**3**	**Jul 16 – Jul 22**	**Nil**	**Nil**
	208 500	**92,04**			**208 500**	**25 Jul 14**	**3**	**Jul 17 – Jul 23**	**Partial**	**5 646**
	90 000	**125,24**			**90 000**	**10 Jul 15**	**3**	**Jul 18 – Jul 24**	**Partial**	**888**
	115 860	**102,93**			**115 860**	**20 Jul 16**	**3**	**Jul 19 – Jul 25**	**Too soon**	**3 831**
		125,10	**105 000**		**105 000**	**24 Jul 17**	**3**	**Jul 20 – Jul 26**	**Too soon**	**1 144**
2016										
	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		

Share matching scheme

In terms of Hudaco's share matching scheme, Graham was required to make a three-year investment to the value of between 12,5% and 50% of his 2016 short-term incentive bonus of R3,9 million in Hudaco shares. Graham elected to make the maximum commitment of 50%, amounting to R1,95 million. To achieve this, Graham purchased 7 932 Hudaco ordinary shares for R1 million on 3 February 2017 at R126,07 per share. On 3 April 2017 when the market price was R144,25 per share, he committed to the scheme a further 6 586 shares to the value of R950 000, which he already owned. He could have achieved the same result by selling these shares and purchasing new ones for the scheme, but this would have triggered capital gains tax and incurred transactional costs unnecessarily.

A total of 4 451 Hudaco shares acquired by Graham in 2014 and held for three years in terms of the share matching scheme were released from their lock-up period and on 9 May 2017 the company purchased for Graham a matching 4 451 shares in the open market at R138,00 per share, the consideration totalling R614 238.

Based on his 2017 short-term bonus, he must commit to the scheme further shares to the value of between R625 000 and R2,5 million by 10 April 2018.

Graham Dunford holds the following positions in terms of the share appreciation bonus scheme:

				Year invested		
	At 30 November 2017	2017	At 30 November 2016	2016	2015	2014
Balance at beginning of year	**59 748**		11 816		7 365	4 451
Granted during year	**14 518**	14 518	47 932	47 932		
Matured during year	**(4 451)**	(4 451)				
Balance at end of year	**69 815**	10 067	59 748	47 932	7 365	4 451

Clifford Amoils – Group financial director

R000	**Fixed remuneration**	**Retirement fund contributions**	**Other benefits**	**Short-term incentive bonus**	**Total before share-based payments**	**Value of long-term incentives awarded during the year**	**Total remuneration**
2017	**2 841**	**320**	**204**	**2 750**	**6 115**	**2 904**	**9 019**
2016	2 653	300	197	2 400	5 550	4 662	10 212

Fixed guaranteed remuneration and benefits

Clifford's total fixed cost-to-company remuneration increased by 7,5% on 1 July 2017 from R3,23 million to R3,475 million. His position was externally benchmarked against companies with a similar size, complexity and geographical spread in 2016 and adjusted appropriately in 2017.

Annual short-term incentive bonus

The following short-term incentive performance criteria and weightings, as determined by the remuneration committee, were used to calculate Clifford's annual bonus which amounted to R2,75 million (2016: R2,4 million):

2017 Measure		**Measure achieved 2017**	**Maximum bonus % available**	**Bonus % achieved**
Measurement	**Target**			
Return on equity	Minimum – 14% Primary – 18% Stretch – 24%	18,7%	44%	35,4%
Increase in ceps	Primary – 15% Stretched – uncapped but subject to claw-back	6,8%	56%	21,2%
Personal non-financial objectives			25%	22,5%
Total percentage of guaranteed fixed remuneration			125%	79,1%

REMUNERATION REPORT continued

Share appreciation bonus scheme

In line with long-term incentive benchmarks for executive directors, on 24 July 2017 Clifford was awarded 49 000 share appreciation bonus rights to be measured off a 10-day VWAP base of R125,10. Subject to the performance criteria, one-third of the allocation will vest three years from the allocation date with another third vesting at the end of year four and the balance at the end of year five.

On 27 February 2017 Clifford exercised 41 946 rights awarded in 2009 at a base price of R50,50 per right and 10 000 rights awarded in 2010 at a base price of R68,09. These rights were all exercised at a 10-day VWAP of R137,93, resulting in a gain of R4 421 665, settled by the delivery of 31 651 Hudaco shares, acquired by the company in the open market.

Clifford Amoils has 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	Prospects of meeting performance requirements	Estimated value at 30 Nov 2017 R000
2017										
	331 993		**49 000**	**51 946**	**329 047**					
	43 333	**50,50**		**41 946**	**1 387**	**1 Jul 09**	**3**	**Jul 12 – Jul 18**	**Nil**	**Nil**
	30 000	**68,09**		**10 000**	**20 000**	**7 Aug 10**	**3**	**Aug 13 – Aug 19**	**Assured**	**1 358**
	27 000	**81,05**			**27 000**	**13 Jul 11**	**3**	**Jul 14 – Jul 20**	**Assured**	**1 484**
	30 000	**109,26**			**30 000**	**27 Jul 12**	**3**	**Jul 15 – Jul 21**	**Nil**	**Nil**
	27 000	**90,80**			**27 000**	**12 Jul 13**	**3**	**Jul 16 – Jul 22**	**Nil**	**Nil**
	74 100	**92,04**			**74 100**	**25 Jul 14**	**3**	**Jul 17 – Jul 23**	**Partial**	**2 007**
	45 600	**125,24**			**45 600**	**10 Jul 15**	**3**	**Jul 18 – Jul 24**	**Partial**	**449**
	54 960	**102,93**			**54 960**	**20 Jul 16**	**3**	**Jul 19 – Jul 25**	**Too soon**	**1 818**
		125,10	**49 000**		**49 000**	**24 Jul 17**	**3**	**Jul 20 – Jul 26**	**Too soon**	**534**
2016										
	277 033		54 960		331 993					
	43 333	50,50			43 333	1 Jul 09	3	Jul 12 – Jul 18		
	30 000	68,09			30 000	7 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		

Share matching scheme

In terms of Hudaco's share matching scheme, Clifford was required to make a three-year investment to the value of between 12,5% and 50% of his 2016 short-term incentive bonus of R2,4 million in Hudaco shares. Clifford elected to make the maximum commitment of 50%, amounting to R1,2 million. To achieve this, Clifford utilised 8 590 of the Hudaco shares he acquired in exercising the share appreciation bonus rights referred to above when the market price was R139,70 per share.

A total of 3 717 Hudaco shares acquired by Clifford in 2014 and held for three years in terms of the share matching scheme was released from their lock-up period and on 9 May 2017 the company purchased for Clifford a matching 3 717 shares in the open market at R138,00 per share, the consideration totalling R512 946.

Based on his 2017 short-term bonus, he must commit to the scheme further shares to the value of between R343 750 and R1 375 000 by 10 April 2018.

Clifford Amoils holds the following positions in terms of the share matching scheme:

	At 30 November 2017	2017	At 30 November 2016	Year invested 2016	Year invested 2015	Year invested 2014
Balance at beginning of year	**44 923**		11 523		7 806	3 717
Granted during year	**8 590**	8 590	33 400	33 400		
Matured during year	**(3 717)**	(3 717)				
Balance at end of year	**49 796**	4 873	44 923	33 400	7 806	3 717

Senior executives' remuneration for the period ending 30 November 2017

David Allman – Portfolio executive: Abes Technoseal, Astore Keymak, Bearings International, Bauer, Belting Supply Services, Specialised Battery Systems, Deltec and Eternity Technologies

R000	Fixed remuneration	Retirement fund contributions	Other benefits	Short-term incentive bonus	Total before share-based payments	Value of long-term incentives awarded during the year	Total remuneration
2017	**2 008**	**310**	**177**	**1 100**	**3 595**	**1 439**	**5 034**
2016	1 889	292	145	1 150	3 476	1 870	5 346

Fixed remuneration

David's total fixed cost-to-company package increased by 6% on 1 July 2017 to R2,50 million (2016: R2,36 million). His position was externally benchmarked in 2016 against businesses with a similar size, complexity and geographical spread.

Annual short-term incentive bonus

The following short-term incentive performance criteria and weightings, as determined by the remuneration committee were used to calculate David's annual bonus which amounted to R1,1 million (2016: R1,15 million):

2017 Measure		Measure achieved 2017	Maximum bonus % available	Bonus % achieved
Measurement	**Target**			
Return on net tangible operating assets	Varies by business	41,1%	32%	19,4%
Increase in operating profit	Varies by business Uncapped but subject to claw-back	5%	32%	4,5%
Personal non-financial objectives			14%	14%
Assuming additional responsibilities				6,1%
Total percentage of deemed guaranteed fixed remuneration			78%	44%

Share appreciation bonus scheme

In line with long-term incentive benchmarks for executive directors, on 24 July 2017 David was awarded 28 000 share appreciation bonus rights to be measured off a 10-day VWAP base of R125,10. Subject to the performance criteria, one-third of the allocation will vest three years from the allocation date with another third vesting at the end of year four and the balance at the end of year five.

On 30 March 2017, David exercised 1 666 rights awarded in 2010 at a base price of R68,09 per right and 4 000 rights awarded in 2011 at a base price of R81,05. These rights were all exercised at a 10-day VWAP of R145,08, resulting in a gain of R386 796, settled by the delivery of 2 666 Hudaco shares, acquired by the company in the open market.

David has 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	Prospects of meeting performance requirements	Estimated value at 30 Nov 2017 R000
2017										
	140 826		**28 000**	**5 666**	**163 160**					
	160	**50,50**			**160**	**1 Jul 09**	**3**	**Jul 12 – Jul 18**	**Nil**	**Nil**
	1 666	**68,09**		**1 666**		**7 Aug 10**	**3**	**Aug 13 – Aug 19**	**n/a**	**n/a**
	4 000	**81,05**		**4 000**		**13 Jul 11**	**3**	**Jul 14 – Jul 20**	**n/a**	**n/a**
	9 000	**109,26**			**9 000**	**27 Jul 12**	**3**	**Jul 15 – Jul 21**	**Nil**	**Nil**
	15 000	**90,80**			**15 000**	**12 Jul 13**	**3**	**Jul 16 – Jul 22**	**Nil**	**Nil**
	54 000	**92,04**			**54 000**	**25 Jul 14**	**3**	**Jul 17 – Jul 23**	**Partial**	**1 462**
	24 900	**125,24**			**24 900**	**10 Jul 15**	**3**	**Jul 18 – Jul 24**	**Partial**	**246**
	32 100	**102,93**			**32 100**	**20 Jul 16**	**3**	**Jul 19 – Jul 25**	**Too soon**	**1 061**
		125,10	**28 000**		**28 000**	**24 Jul 17**	**3**	**Jul 20 – Jul 26**	**Too soon**	**305**

REMUNERATION REPORT continued

	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
2016								
	108 726		32 100		140 826			
	160	50,50			160	1 Jul 09	3	Jul 12 – Jul 18
	1 666	68,09			1 666	7 Aug 10	3	Aug 13 – Aug 19
	4 000	81,05			4 000	13 Jul 11	3	Jul 14 – Jul 20
	9 000	109,26			9 000	27 Jul 12	3	Jul 15 – Jul 21
	15 000	90,80			15 000	12 Jul 13	3	Jul 16 – Jul 22
	54 000	92,04			54 000	25 Jul 14	3	Jul 17 – Jul 23
	24 900	125,24			24 900	10 Jul 15	3	Jul 18 – Jul 24
		102,93	32 100		32 100	20 Jul 16	3	Jul 19 – Jul 25

Share matching scheme

In terms of Hudaco's share matching scheme David was required to make a three-year investment to the value of between 12,5% and 50% of his 2016 short-term incentive bonus of R1,15 million in Hudaco shares. David elected to make a commitment of 38%, amounting to R441 000. To achieve this, David committed 3 000 Hudaco shares at the open market price of R147,00 per share.

Based on his 2017 short-term bonus, he must commit to the scheme further shares to the value of between R137 500 and R550 000 by 10 April 2018.

David Allman holds the following positions in the share matching scheme:

				Year invested		
	At 30 November 2017	2017	At 30 November 2016	2016	2015	2014
Balance at beginning of year	**13 221**		3 394		3 394	3 717
Granted during year	**3 000**	3 000	9 827	9 827		
Balance at end of year	**16 221**	3 000	13 221	9 827	3 394	3 717

Brian Constançon – portfolio executive of electrical power transmission and steel divisions

R000	Fixed remuneration	Retirement fund contributions	Other benefits	Short-term incentive bonus	Total before share-based payments	Value of long-term incentives awarded during the year	Total remuneration
2017	**1 821**	**286**	**171**	**1 450**	**3 728**		**3 728**
2016	1 712	270	143	410	2 535	674	3 209

Fixed guaranteed remuneration and benefits

Brian's total fixed cost-to-company package increased by 6% from 1 July 2018 to R2,28 million (2016: R2,16 million). His position was externally benchmarked in 2016 against businesses with a similar size, complexity and geographical spread.

Annual short-term incentive bonus

The following short-term incentive performance criteria and weightings, as determined by the remuneration committee, were used to calculate Brian's annual bonus to the amount of R1,45 million (2016: R410 000).

2017 Measure		**Measure achieved 2017**	**Maximum bonus % available**	**Bonus % achieved**
Measurement	**Target**			
Return on net tangible operating assets	Varies by business	29,3%	32%	21,3%
Increase in operating profit	Varies by business Uncapped but subject to claw-back	19,3%	32%	30%
Personal non-financial objectives			14%	12%
Total percentage of guaranteed fixed remuneration			78%	63,3%

Share appreciation bonus scheme

Brian reaches retirement age during 2019 and therefore was not eligible to participate in this long-term bonus scheme during 2017.

Brian did not exercise any share appreciation bonus rights during the year.

He has the following rights in terms of the share appreciation bonus scheme:

	Out-standing rights beginning of year	Strike price R	Granted during the year	Taken up during the year	Out-standing rights end of year	Date granted	Number of tranches	Date benefit to be determined	Prospects of meeting performance requirements	Estimated value at 30 Nov 2017 R000
2017										
	64 820				**64 820**					
	320	**50,50**			**320**	**1 Jul 09**	**3**	**Jul 12 – Jul 18**	**Nil**	**Nil**
	9 000	**109,26**			**9 000**	**27 Jul 12**	**3**	**Jul 15 – Jan 20**	**Nil**	**Nil**
	15 000	**90,80**			**15 000**	**12 Jul 13**	**3**	**Jul 16 – Jan 20**	**Nil**	**Nil**
	33 000	**92,04**			**33 000**	**25 Jul 14**	**3**	**Jul 17 – Jan 20**	**Partial**	**902**
	7 500	**125,24**			**7 500**	**10 Jul 15**	**3**	**Jul 18 – Jan 20**	**Partial**	**740**
2016										
	83 500			18 680	64 820					
	5 000	50,50		4 680	320	1 Jul 09	3	Jul 12 – Jul 18		
	5 000	68,09		5 000		7 Aug 10	3	Aug 13 – Aug 19		
	9 000	81,05		9 000		13 Jul 11	3	Jul 14 – Jan 20		
	9 000	109,26			9 000	27 Jul 12	3	Jul 15 – Jan 20		
	15 000	90,80			15 000	12 Jul 13	3	Jul 16 – Jan 20		
	33 000	92,04			33 000	25 Jul 14	3	Jul 17 – Jan 20		
	7 500	125,24			7 500	10 Jul 15	3	Jul 18 – Jan 20		

Share matching scheme

Brian reaches retirement age during 2019 so he was not eligible to participate in this long-term bonus scheme in 2017.

He holds the following positions in the share matching scheme:

		Year invested		At	Year invested	
	At 30 November 2017	2017		30 November 2016	2016	2015
Balance at beginning of year	**10 062**			2 862		2 862
Granted during year				7 200	7 200	
Balance at end of year	**10 062**			10 062	7 200	2 862

Barry Fieldgate – portfolio executive of Berntel, Bosworth, Brewtech, Ernest Lowe, HERS, MiRO, Global Communications, SS Telecoms, The Dished End Company, Filter & Hose Solutions and Africa development

R000	Fixed remuneration	Retirement fund contributions	Other benefits	Short-term incentive bonus	Total before share based-payments	Value of long-term incentives awarded during the year	Total remuneration
2017	**2 278**	**334**	**138**	**1 305**	**4 055**	**1 567**	**5 622**
2016	2 151	316	147	1 000	3 614	2 091	5 705

Fixed guaranteed remuneration and benefits

Barry's total fixed cost-to-company package increased by 6% on 1 July 2017 to R2,7 million (2016: R2,55 million). His position was externally benchmarked in 2016 against businesses with a similar size, complexity and geographical spread.

REMUNERATION REPORT continued

Annual short-term incentive bonus

The following short-term incentive performance criteria and weightings, as determined by the remuneration committee, were used to calculate Barry's annual bonus which amounted to R1,305 million (2016: R1 million):

2017 Measure		Measure achieved	2017 Weighting	Performance against target
Measurement	**Target**			
Return on net tangible operating assets	Varies by business	35%	32%	16%
Increase in operating profit	Varies by business Uncapped but subject to claw-back	16,9%	32%	23,3%
Personal non-financial objectives			14%	9%
Total percentage of guaranteed fixed remuneration			78%	48,3%

Share appreciation bonus scheme

In line with long-term incentive benchmarks for executive directors, on 24 July 2017 Barry was awarded 30 000 share appreciation bonus rights to be measured off a 10-day VWAP base of R125,10. Subject to the performance criteria, one-third of the allocation will vest three years from the allocation date with another third vesting at the end of year four and the balance at the end of year five.

Barry did not exercise any share appreciation rights during 2017.

He has the following rights in 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	Prospects of meeting performance requirements	Estimated value at 30 Nov 2017 R000
2017										
	156 900		**30 000**		**186 900**					
	18 000	**109,26**			**18 000**	**27 Jul 12**	**3**	**Jul 15 – Jul 21**	**Nil**	**Nil**
	15 000	**90,80**			**15 000**	**12 Jul 13**	**3**	**Jul 16 – Jul 22**	**Nil**	**Nil**
	59 100	**92,04**			**59 100**	**25 Jul 14**	**3**	**Jul 17 – Jul 23**	**Partial**	**1 600**
	30 000	**125,24**			**30 000**	**10 Jul 15**	**3**	**Jul 18 – Jul 24**	**Partial**	**296**
	34 800	**102,93**			**34 800**	**20 Jul 16**	**3**	**Jul 19 – Jul 25**	**Too soon**	**1 151**
		125,10	**30 000**		**30 000**	**24 Jul 17**	**3**	**Jul 20 – Jul 26**	**Too soon**	**327**
2016										
	122 100		34 800		156 900					
	18 000	109,26			18 000	27 Jul 12	3	Jul 15 – Jul 21		
	15 000	90,80			15 000	12 Jul 13	3	Jul 16 – Jul 22		
	59 100	92,04			59 100	25 Jul 14	3	Jul 17 – Jul 23		
	30 000	125,24			30 000	10 Jul 15	3	Jul 18 – Jul 24		
		102,93	34 800		34 800	20 Jul 16	3	Jul 19 – Jul 25		

Share matching scheme

In terms of Hudaco's share matching scheme, Barry was required to make a three-year investment to the value of between 12,5% and 50% of his 2016 short-term incentive bonus of R1 million in Hudaco shares. Barry elected to make the maximum commitment of 50%, amounting to R500 000. To achieve this, Barry purchased 3 367 Hudaco shares on the open market at R148,50 per share on 22 March 2017.

Based on his 2017 short-term bonus, he must commit to the scheme further shares to the value of between R163 125 and R652 500 by 10 April 2018.

Barry holds the following positions in the share matching scheme:

	At 30 November 2017	Year invested 2017	At 30 November 2016	Year invested 2016	Year invested 2015
Balance at beginning of year	**14 834**		3 444		3 444
Granted during year	**3 367**	3 367	11 390	11 390	
Balance at end of year	**18 201**	3 367	14 834	11 390	3 444

Non-executive directors' remuneration

Non-executive directors' remuneration for the period ended 30 November 2017

R000	2017	2016
RT Vice	**957**	900
SJ Connelly	**386**	356
SG Morris [1]	**318**	562
N Mandindi	**512**	451
D Naidoo	**518**	486
MR Thompson [2]	**250**	
Total	**2 941**	2 755

[1] *Retired 30 June 2017*
[2] *Appointed 20 June 2017*

Proposed non-executive directors' fees for 2018/2019

At Hudaco's annual general meeting to be held on 5 April 2018, shareholders will be requested to approve the non-executive directors' fees for the period 1 April 2018 until 31 March 2019 as set out below. Subject to rounding, these fees represent an increase of 6% compared to the previous year.

The South African Revenue Services has deemed in a binding general ruling that non-executive directors are not employees and accordingly are required to register for and charge VAT on directors' fees earned for services rendered as non-executive directors. This amends the previous practice in terms of which non-executive directors' fees were not subject to VAT. The proposed special resolution for the approval of the fees takes account the ruling to ensure that the non-executive directors are not prejudiced by the ruling.

R (excluding VAT)	Proposed 2018 Base fee	Proposed 2018 Penalty for non-attendance
Board		
Chairman of the board	1 033 500*	19 100
Board member	276 300	13 500
Lead independent non-executive	100 000	5 000
Audit and risk management committee		
Chairman of the committee	240 400	19 100
Committee member	132 500	13 500
Remuneration committee		
Chairman of the committee	168 500	19 100
Committee member	42 700	6 700
Nomination committee		
Chairman of the committee	*	
Committee member	42 700	6 700
Social and ethics committee		
Chairman of the committee	143 750	19 100
Member of the committee	42 700	6 700

* *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 – R28 000 (2017: R26 500), member – R20 000 (2017: R19 000).

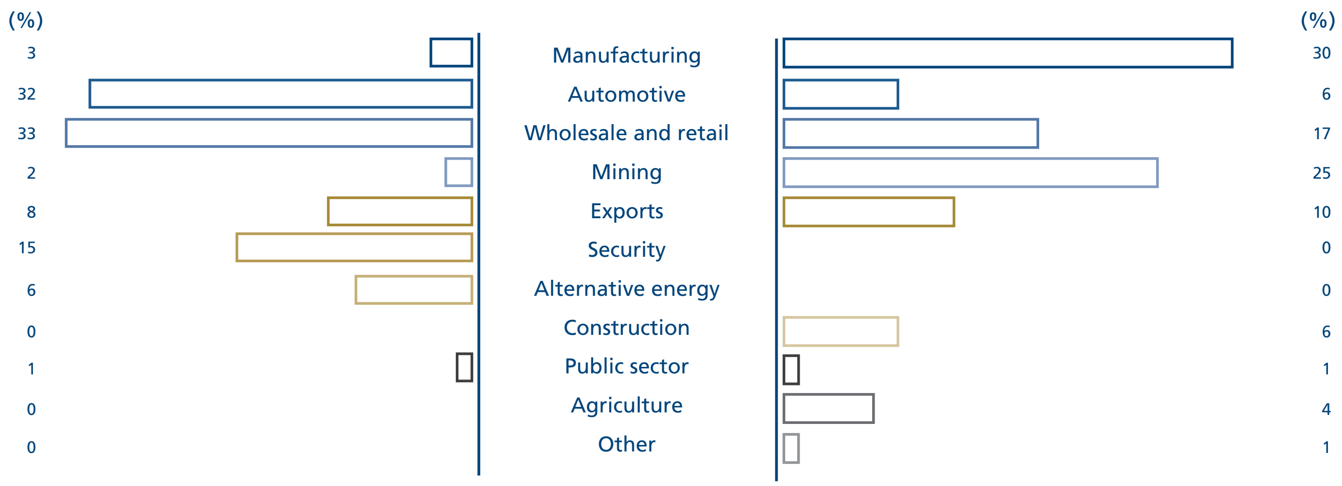
REVIEW OF OPERATIONS

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 in the Rand rate of exchange by an average of 10% against our basket of currencies in 2017 (19% in 2016) and its significant volatility made both getting pricing and maintaining gross margin very difficult. We had no choice but to reduce selling prices. 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 – 2017

CONSUMER-RELATED PRODUCTS ENGINEERING CONSUMABLES



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.
- Abes Technoseal distributes light and heavy duty clutches, ignition leads and oil seals.
- Rutherford distributes Makita industrial power tools, Mercury marine engines, survey equipment, nuclear gauges and FTS rivets and fasteners.
- 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.
- Commercial ICT is a small core IT systems and infrastructure provider, with exclusive agencies for communication products sold to, *inter alia*, the security industry.
- 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.
- Eternity Technologies, Deltec and Specialised Battery Systems distribute traction, automotive, stand-by and solar battery systems and provide comprehensive forklift battery management service to distribution centres and warehouses.
- SS Telecoms is a voice and data solution provider specialising in PBX communication management software and telephone management.

Refer to page 59 for a geographic analysis of the source of supply of the consumer-related products range.

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Performance

In 2017 the consumer-related products segment contributed 52% of group turnover and 61% of group operating profit. Turnover grew by 9% to R3 billion whilst operating profit grew 6% to R428 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.

Automotive aftermarket: Partquip and Abes Technoseal

Whilst Partquip's revenue figures were almost identical to those posted last year, a substantial improvement in the exchange rate meant that in reality, significantly more units were sold than in the previous year in order to achieve this, across most product lines. Coupled with improved margins and continued vigilance in controlling costs, this enabled Partquip to deliver another pleasing set of results for the year.

The Partquip group remains our biggest business and distributes to resellers in the automotive aftermarket. It is made up of three divisions:

- Partquip, which distributes a select range of automotive spares, 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.

Abes Technoseal also had very pleasing results for 2017 and celebrated its 80th anniversary. The seals and special products divisions experienced substantial growth in both the automotive aftermarket and original equipment sectors. The light duty and heavy duty clutch divisions had a good year due to range expansion and the introduction of additional distribution channels.

We see the automotive aftermarket continuing to grow in the years ahead as the national vehicle pool grows. On the other hand, a depressed new vehicle market increases the demand for competitively-priced quality spare parts to keep the secondhand vehicles running.

Our businesses will ensure that they continue to position themselves to ensure that they capitalise on this growth in 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
IRONMAN	4-Wheel drive suspension, accessories and camping equipment.	Sole distributor since 2005

PRINCIPAL BRANDS: ABES TECHNOSEAL		
Valeo	Light and heavy 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
	Ignition cables from France.	Exclusive distributor since 2007
EXEDY	Clutch kits from Japan.	Sole distributor since 2014

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.

After lengthy delays in obtaining letters of authority because of a backlog at the National Regulator for Compulsory Specifications, Rutherford was able to launch a new second tier industrial power tool range, Makita MT. The launch was very successful, enabling Rutherford to increase both turnover and market share in an economy under pressure.

FTS, the fastener division, is Rutherford's fastest growing division. After the successful acquisition of All-Trade to complement the rivets business, FTS is now able to offer a broad range of fasteners to the market. It is following a two pronged strategy of selling to both resellers and large end-users.

Rutherford Marine, which represents the Mercury brand, successfully launched a boat programme in 2017 whereby Rutherford Marine offered boat-motor-trailer packages to dealers. This allowed it to increase its market share this year. Marine spares sales declined due to pressure from cheaper aftermarket products.

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

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

Security products: Elvey Security Technologies, Pentagon and Commercial ICT

Our security businesses experienced a challenging trading environment with overall performance down on prior year. Elvey found run-rate sales into the traditional residential market to be weaker on the back of subdued consumer spending and a slower adoption of newer technologies, with most end-users preferring to add on to existing systems where required. Corporate and government infrastructure spending stalled on the back of the surprise cabinet reshuffle, which had a dramatic impact on our projects business, particularly at Pentagon, our integrated security projects division. Exports into sub-Saharan Africa were negatively affected by political instability and weakened economic conditions in the region. Permaconn, the annuity income offering of Commercial ICT, is starting to get traction in the market.

Whilst we anticipate gradual improvement in consumer and enterprise spending and a slightly more robust project pipeline in the year ahead, we anticipate margins coming under pressure as we battle aggressive pricing tactics by competitors. Margins will potentially be further affected by certain suppliers supplying directly to the market, on a selective basis. We will, however, respond appropriately and will remain focused on supplying a unique range of leading security technologies/solutions, supplementing it with superior service, training and technical support. Exports into sub-Saharan Africa are expected to improve with the gradual improvement in general economic conditions, brought about by increased commodity prices and the easing of drought conditions.

PRINCIPAL BRANDS: ELVEY SECURITY TECHNOLOGIES AND COMMERCIAL ICT		
BOSCH	A leading manufacturer of integrated security and building management systems from Germany.	Distributor since 2011
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
	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
KEDACOM	A leading provider of video conference, video surveillance and various video solutions from China.	Distributor since 2017
alhua	Global video surveillance products from China.	Distributor since 2011
PERMACONN	A leading designer and manufacturer of alarm communication products from Australia.	Distributor since 2017

Communication equipment: MiRO, Global Communications and SS Telecoms

MiRO had a very successful year, maintaining its fast growth trajectory from previous years. The internet access market shows no signs of slowing down, and MiRO is providing hardware solutions to more and more service providers in this market sector. In the last year, the business added a new fibre division, which has gained traction in the market and will contribute significantly to turnover in the coming years.

REVIEW OF OPERATIONS continued

MiRO leveraged benefits from the Hudaco group to improve stock availability and also to trade with larger customers by providing credit. The next year will see the business continue its strategy of providing excellent service and support to service providers and integrators in the IP convergence industry. New additions to the product portfolio in 2018 will enable MiRO to offer a complete communication solution from wired networking, through to fibre and wireless solutions. MiRO will continue to provide licence-exempt wireless solutions, but place more focus on business development around high-end licensed-frequency and microwave wireless products, which are attractive to private service providers, telcos and enterprise users.

Global Communications has had a tough year, with very few projects. The specialised systems integration part of the business has continued with the digital migration and the balance between digital and analogue has shifted to 50% each. Africa has not lived up to its potential this year. Lack of foreign currency, elections, and Chinese influence are major contributing factors to this. We have, however, secured a Partner Programme Agreement with Nokia to take their portfolio of telecoms products to the African market. The pressure on margins remains but domestically Global continues to hold its Kenwood market share. We will be restructuring the business so as not to be so reliant on projects. We anticipate a good 2018, with confirmation of orders from existing clients.

SS Telecoms performed in line with expectations for its first year in the group. It supplies voice and data technology to communication resellers throughout South Africa and to operators in sub-Saharan Africa. It also added a cloud unified communication solution to the offering in 2017.

PRINCIPAL BRANDS: MiRO		
Ubiquiti	Wireless data communication products from USA.	Distributor since 2008
MikroTik	Wireless products and routers from Latvia.	Distributor since 2006
Cambium Networks	Wireless broadband solutions from USA.	Master distributor since 2016
Grandstream	Complete VoIP telephony solutions.	Distributor since 2005

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

Batteries: Deltec, Specialised Battery Systems (SBS) and Eternity Technologies

Deltec performed very well. The good results were achieved by realigning the business and focusing on traditional markets. The mining and quarry traction business has grown, with a more competitive battery offering, thereby complementing the automotive aftermarket revitalisation.

SBS achieved reasonable results, still maintaining market share. The stand-by battery systems are an integral part of any sophisticated support infrastructure and the product range caters for telecommunication, computer, security and alarm systems. The batteries sold during load shedding will be up for replacement from 2018 onwards.

Eternity Technologies was acquired in August 2017, adding to our battery business offering. Started in 1988 as a battery tank supplier to the mining traction industry, Eternity focuses on the supply of forklift batteries and the management of forklift battery bays for large warehouses and distribution centres around southern Africa. As many warehouses operate 24 hours a day, seven days a week, it is critical that their forklift batteries are properly maintained and charged. The main supplier is Eternity Technologies in Dubai which, in addition to traction batteries, also produces solar and stand-by batteries.

PRINCIPAL BRANDS: DELTEC, SBS AND ETERNITY TECHNOLOGIES		
Varta	World's leading brand in sealed automotive batteries.	Sole distributor since 2007
CSB Battery	Back-up power in UPS, telecoms security, etc.	Sole distributor since 2000
Royal	Back-up power (UPS) and solar systems.	Sole distributor since 2000
SBS Solar	Custom solar systems using the SBS Solar products.	Sole distributor since 2009
Eternity	Full international range of British Standard Cells, DIN Standard Cells and BCI Standard Cells.	Sole distributor since 2014
Fronius	Innovative and tailor-made systems for charging batteries in intralogistics.	Sole distributor since 2013
[illegible]	Improving the life and performance of industrial batteries.	Sole distributor since 2008

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.

We are optimistic for the businesses in this division for 2018. With more confidence in the economy, consumer spending should increase. We are also hopeful that projects that have been on hold for the last few years will come through in our security and communications businesses. Our automotive aftermarket businesses, Abes and Partquip, are well positioned for sustained organic growth. MiRO is taking advantage of the growth in data connectivity and IP convergence across South Africa and we see this continuing for the foreseeable future. Our three battery businesses now cover the full spectrum of batteries and, in addition to organic growth, we expect the replacement of those stand-by batteries supplied over the load shedding years.

CONSUMER-RELATED PRODUCTS

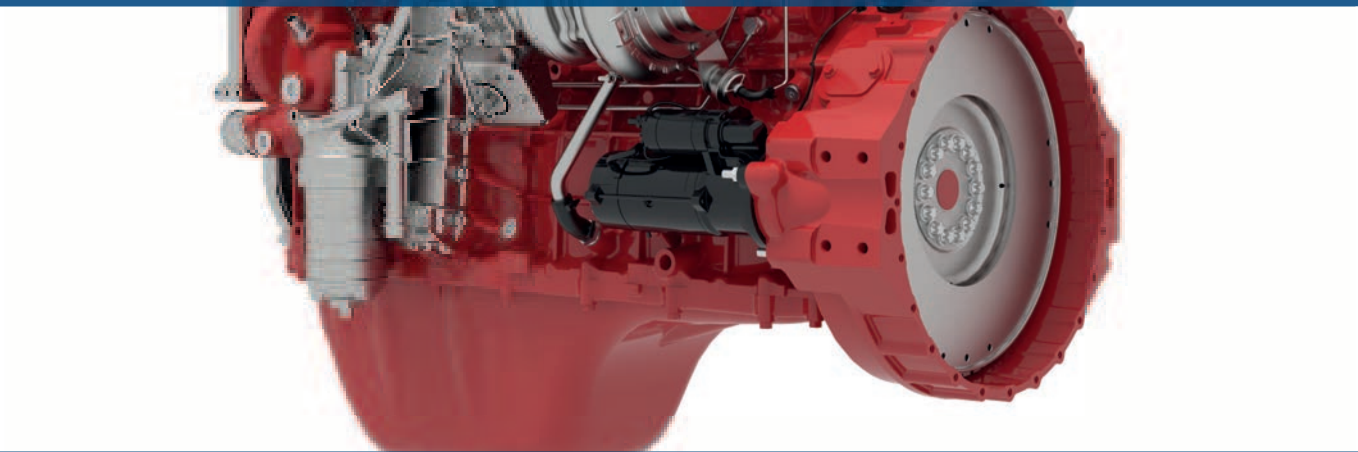
SOURCE OF PRODUCTS

	(%)
China	41
Asia – other	13
Europe – other	12
South Africa	9
North America	9
United Kingdom	4
Singapore	4
Taiwan	4
Other	4

REVIEW OF OPERATIONS continued

Engineering consumables

The majority of businesses in this segment distribute mature industrial products to mature economic segments (mainly mining and manufacturing). These market sectors have been in decline for the last approximately 10 years partly due to natural boom and bust cyclicality of resources but also recently due to new regulations scaring off investment. Hudaco businesses in this segment are sized correctly for current market conditions and, whilst profits are not growing, returns are good and they generate the cash we use to diversify and expand our portfolio of businesses.



This segment comprises the following main businesses and activities:

- Bearings International has over 40 branches across southern Africa. The main bearing brands distributed are INA, 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, Sanderson Special Steels and The Dished End Company), 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 2017 the engineering consumables segment contributed 48% of group turnover and 39% of group operating profit. Turnover increased by 4,5% to R2,9 billion but operating profit increased 7% to R272 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.

The majority of businesses in this segment distribute mature industrial products to mature economic segments (mainly mining and manufacturing). These market sectors have been in decline for the last approximately 10 years partly due to natural boom and bust cyclicality of resources but also recently due to political machinations and new regulations scaring off investment. Hudaco businesses in this segment are sized correctly for current market conditions and their good returns generate the cash we use to diversify and expand our portfolio of businesses.

We are happy to report that two of the three businesses in this segment which suffered significant declines in sales and operating profit in 2016 delivered significantly improved performances this financial year. Our filter business, FHS, has benefitted from an increase in activity, mainly in open-cast mining but also in the construction sector. In the gear pump business, GPM, sales have picked up locally and from the USA and UK. Sales in our diesel engine business, Deutz Dieselpower, normalised albeit at a lower level than in the load shedding era. Encouragingly, late in the year we saw an increase in activity in the mining side of this business, which bodes well for 2018.

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Refer to page 64 for a geographic analysis of the source of supply of the engineering consumables product range.

Astore Keymak

Astore Keymak is a leading supplier of a comprehensive range of thermoplastic pipe fittings, valves and pipeline accessories in all recognised materials. Keymak manufactures hose for various market sectors such as agriculture, mining, gas and fire reel hose.

With the market showing very little growth, Astore Keymak has once again managed a creditable performance in a difficult economy in the sectors in which it trades. Maintaining market share was the key focus, which had a negative impact on gross profit margins. The outlook for infrastructure spend on the back of political influence and uncertainty dampened significant growth. The drought in the Cape has still not broken but it creates an opportunity for business from aquifers and desalination plants.

Bearings International and Bauer

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 yet another difficult year and we have not managed to achieve the growth in this business that we had envisaged.

The market place in 2017 remained very challenging due to the depressed economy in the general engineering and manufacturing markets. This created a price sensitive market on commodity items, with tender margins being squeezed. The turnaround strategy has taken longer than expected as low GDP growth stifles any positive gains in reshaping the business.

The Bauer team, which works closely with Bearings International, has been strengthened and when markets improve they will continue to produce good results.

We are still confident that, with the measures taken so far, Bearings International is in better shape to take advantage of the opportunities as they arise in the future.

PRINCIPAL BRANDS: BEARINGS INTERNATIONAL		
SCHAEFFLER LUK INA FAG	Precision bearings from Germany.	Distributor since 2005
JTEKT Koyo	Ball and roller bearings from Japan.	Sole distributor since 1962
REXNORD	Rexnord Bearings and Transmission from USA.	Distributor since 2001
COOPER	Split roller bearings from UK.	Sole distributor since 1937
BAUER	Geared motors from Germany.	Sole distributor since 1989

REVIEW OF OPERATIONS continued

Belting Supply Services and Brewtech

Belting Supply Services had an excellent year with sales to the food and beverage, pack house, agriculture, manufacturing and hose markets all up on last year. The supply of rubber belting, hose and Bestobell specialised valves and instrumentation were the main contributors in this very traditional product and market sector.

Brewtech is a non-exclusive distributor for Rexnord FlatTop Europe and carries their Rexnord, Marbett and MCC range of chains, belts, and conveyor components. Its in-house workshop manufactures parts for specific engineering applications for bakeries, food and beverage, bottling, can and glass manufacturing and poultry processing. Performance for 2017 was satisfactory despite competition and uncertainty around the contract for ABInBev, which expired at the end of August 2017. We have tendered for the new contract, which will be adjudicated early in 2018.

Deutz Dieselpower (DDP)

Deutz diesel engines are designed for high-end, heavy duty variable speed and high load applications and its main market is the mining industry, which unfortunately experienced a difficult year in 2017. 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 manufacturers (OEMs) such as Sandvik, Atlas Copco and GHH.

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 limited number of local OEMs in this region. The margin on parts is higher than on new engines, so a key strategy is to continue to grow the engine population, and thereafter secure the aftermarket business. This is achieved by offering excellent support for Deutz engines wherever they are located, and however they arrived in our territory.

DDP had an acceptable year in 2017. The South African mining market (one of DDP's main revenue contributors) was under pressure in 2017. Despite this, new engine sales to OEMs had a reasonably strong performance, along with an improved performance in the Rustenburg area with increased demand from the chrome and platinum mines. The release of the Mining Charter in June 2017 (although not implemented) created a great deal of uncertainty and negative sentiment in the SA mining industry, affecting the second half of the year. DDP benefitted from the increased activity in copper mining due to the improved copper price, resulting in healthy growth in our Zambia business. This trend is expected to continue into 2018.

The performance in the genset market remains positive, especially if compared with pre-2015 activity, with DDP managing to maintain its increased market share achieved in 2015 and 2016. It is expected that the mining market will remain flat, or show marginal growth. Improved commodity prices and policy certainty in SA will be key to creating a more positive mining environment and facilitating growth.

The regulatory requirements for emission controls and collision avoidance regulations in underground mines continue to develop at a constant pace and this will place Deutz engines at a distinct advantage over the Indian and Chinese copy imports, as Deutz engines already comply with European and US emission regulations, the most stringent in the world.

In the year ahead, DDP is aiming to grow its market share in segments other than mining, thus reducing its reliance on this sector. A new range of large in-line diesel engines will also be launched, expanding the existing engine offering.

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

Filter and Hose Solutions (FHS)

FHS is a leading distributor of Donaldson filters and filtration solutions, kits, exhaust systems and accessories for heavy duty and automotive applications.

FHS enjoyed significant growth during the past year. Turnover and profit were up on the prior year, due mainly to open-cast mining and construction industry sales. Rigorous cost management, improved internal processes and an aggressive sales strategy are starting to pay dividends. Furthermore, there has been a continued focus on FHS' methodology of customised filtration solutions and in-depth technical knowledge to leverage the inherent resilience of its business model.

The slight uptick in the SA mining industry, with the stabilisation of global commodity prices and the relative strength of the Rand, are positive signs for the business in 2018. Cost savings realised in 2017 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, Three-D Agencies, Proof Engineering and Ampco. The market segments in which the division primarily operates (mining and manufacturing) remained depressed throughout the year, although increases in commodity prices created limited opportunities in the mining sector.

Profitability in Powermite and Proof Engineering increased meaningfully, mainly because of improvements in efficiency resulting from the structural changes implemented during the 2016 financial year and further actions taken this year to contain costs.

Varispeed expanded its product offering to include the Yaskawa ranges of motion and control products, which will allow it to compete in markets where it previously could not. Three-D Agencies continued to perform well.

PRINCIPAL BRANDS: ELECTRICAL POWER TRANSMISSION		
YASKAWA	Variable speed drives from Japan.	Distributor since 1992
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, Belting Supply Services, Berntel, Bosworth, Ernest Lowe, HERS, Dosco (including GPM), Joseph Grieveson, Sanderson Special Steels and The Dished End Company.

Ambro Steel again grew profits, despite the dismal trading conditions in the steel industry. Sanderson Special Steels had a less profitable year than last year, but still achieved a very acceptable return in this tough market.

GPM's total sales have improved, US sales grew substantially from last year due to the normalisation of existing customer stock levels, the addition of new customers and a general improvement in the USA market. GPD, a United Kingdom based former distributor of the GPM product, was aquired on 1 June 2017 and had a significant impact on GPM sales. Dosco, which operates in the challenging mining sector, performed well. Joseph Grieveson had a much improved year.

Ernest Lowe had a solid year. Profit was up in 2017 and expenses were kept in check. Due to the challenges in the mining industry, the business has diversified to achieve real growth, while maintaining focus on the core business. This diversification has been into the water valve and sewage processing sectors. The opportunities lie in the fact that current water and sewage infrastructure are under enormous pressure from overuse and lack of maintenance. Ernest Lowe has the exclusive agency for the Strate Awalift product offering that can provide a real solution to many of the problems.

HERS draws most of its revenue from the mining industry. Needless to say, cost containment was a key objective in 2017 but some initiatives that required expenditure were undertaken to prepare HERS for the future. It was necessary to align with the Hudaco requirement to become ISO compliant, appoint certain vital resources to bolster the workforce and complete significant repairs to some machinery. As a result, profits were down on the previous year but still acceptable.

Bosworth had a challenging trading year with both sales and profits down on the previous year. The South African market for pulleys remained muted but increased export sales assisted in achieving the year end result. On the positive side, we will be starting 2018 with a substantial order book. Bosworth has diversified its product range to reduce its reliance on the demand for a single product. We will begin to supply rubber sheeting in the new year.

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
NTR	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	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	Axles (including subassembly components of brakes, centre portions, planetary assemblies), transmissions and convertors.	Repairer since 2001 and official spares and repairs agent in SADC since 2009

REVIEW OF OPERATIONS continued

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.

This segment stands to gain the most out of a government that is business friendly and free of corruption. We believe that if the unworkable Mining Charter is withdrawn and if there is policy certainty from a mining minister who has a sound understanding of the mining industry, there will once again be growth, not only in mining but also in the manufacturing sector because in South Africa much manufacturing is dependent on mining.

All the businesses in this segment are well placed to take immediate advantage of any increase in GDP.

ENGINEERING CONSUMABLES

SOURCE OF PRODUCTS

	(%)
South Africa	46
Germany	16
China	11
Asia – other	8
European Union – other	7
Italy	4
United Kingdom	3
Japan	3
Other	2

Africa outlook

Due to low commodity prices at the beginning of 2017, sluggish performance in the global economy and the various political issues throughout the African continent, Hudaco exports into Africa were slightly down compared to 2016.

New projects were not as forthcoming as anticipated, some existing projects were put on hold and a number of African countries experienced severe shortages of foreign currency. These were all factors contributing to lower export figures for the group in 2017.

Sales to Namibia were slightly down. Ethiopia had a significant impact on our contraction in 2017. The Ethiopian government ran out of funding, but there is optimism that UN funding will continue in 2018. The funds will be used for communication infrastructure. We have seen a small increase in sales to Botswana, Zambia, Zimbabwe and Swaziland. Exports to Zimbabwe are expected to increase, albeit slowly due to the rebuilding of the economy and the time it may take for investors to gain confidence in the market.

Most of our export sales and growth came from the southern African markets. Our security businesses have opened an office in Kenya which is starting to gain traction. Elvey and Pentagon have quoted on a number of projects which look positive. MiRO is considering also setting up a sales and distribution operation in Nairobi in 2018. We are considering establishing a small presence in Ghana to create a platform for several Hudaco businesses to better access west African markets.

We expect 2018 to be a better year for the export market on the back of improved commodity prices.

Black economic empowerment

During 2017, all businesses were again audited by independent verification bodies. Hudaco Trading (Pty) Ltd improved its rating to a Level 3 status on the new codes, which we consider an excellent achievement. This status then applies to all its businesses, meaning that customers are able to claim 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 71 and 72 for further details of our transformation programme. 71, 72

A restructuring of the current BEE trusts that hold shares in Hudaco Trading (Pty) Ltd was put on hold while we gained a better understanding of new interpretations of requirements but it is back on track. The education and charitable trusts will both become trusts for the benefit of all qualifying black employees of Hudaco. The education programme will continue unabated within Hudaco Trading itself and both trusts will be renamed. It is now expected that this restructuring will be completed during 2018. 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.

Late in the year, Hudaco embarked on an extensive learnership initiative with the Maharishi Institute and the Imvula Trust. This should impact positively the next scorecard rating and will benefit about 170 learners, including 25 who are disabled.

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. We therefore regard environmental requirements as an integral part of how we do business and ensure that our businesses comply with all relevant legislation, regulations and in particular the Constitution of South Africa, which states that every person has the right to an environment that is not harmful to their health or wellbeing.

During 2017 Nevashree Moodley, who holds a BSc degree in environmental and geographical sciences and a BSc honours degree in environmental management, joined Hudaco in the capacity of group SHEQ (safety, health, environmental and quality) manager. During the past year she worked closely with the group's businesses towards ensuring:

- the integration of environmental management systems;
- adherence to environmental legalisation, standards, frameworks and codes; and
- the identification, evaluation and mitigation of environmental risks within the group.

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. However, we believe that Hudaco has a low environmental impact and that our choice of suppliers and their locations have important consequences.

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.

ISO 14001 CERTIFICATION AS AT NOVEMBER 2017 (%)

	(%)
Certified	53
Certification scheduled for 2018	19
Certification scheduled post 2018	28

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 the 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 reports, 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, as importers we 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.

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.

REVIEW OF OPERATIONS continued

In the 2016 integrated report, various aspects were identified as environmental impact focus areas for the 2017 financial year. Below is a table illustrating the actions taken with regard to these focus areas:

FOCUS AREA	PROGRESS	FORWARD FOCUS
Review and update of Hudaco's environmental policy.	The social and ethics committee approved the updated environmental policy during October 2017.	The environmental policy will be reviewed and updated on an annual basis.
Development of an environmental manual which includes guidelines to address issues such as water and energy usage, recycling and waste management.	It was agreed that each business should, as part of their ISO 14001 environmental management system, develop its own manual, taking into account its own circumstances relating to water and energy usage, recycling and waste management.	Ongoing.
The implementation by all businesses of a monthly environmental reporting system to facilitate accurate data collection.	Each business has implemented an environmental reporting system whereby data is collected on a monthly basis.	Businesses are focusing on accurate data input so that the information can be audited and used for reporting purposes.
The setting of realistic targets for the various businesses regarding water and energy usage, recycling and waste management.	During 2017 businesses used the data collected through the environmental reporting system to obtain a better understanding of their current situation. Targets have been set for the reduction of energy consumption and waste management.	Businesses are to focus on actual usage versus targets set.
Accurate reporting of all environmental metrics applicable to Hudaco.	Businesses are now required to report on a monthly basis to head office, using the environmental reporting system.	As from 2019 monthly environmental reporting data will be audited on a quarterly basis to verify accuracy of reported figures.

During the year the following additional environmental initiatives were implemented:

- Varispeed decreased its energy consumption by 40% by replacing conventional lighting in its warehouse and offices with LED luminaires. This initiative is to be implemented at other businesses within the group during 2018;
- Joseph Grieveson and Gear Pump Manufacturing reduced their emissions pollution and both obtained air atmospheric emissions licences; and
- Training courses on SHE (safety, health and environment) legal liability and root cause analysis technique were conducted and would continue during 2018.

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 their respective business' environmental performance and initiatives.

Hudaco — Environmental policy statement

HUDACO is committed to:

- implementing, maintaining and regularly reviewing the ISO 14001:2015 environmental management system at all businesses.
- complying with applicable environmental legislation from a national provincial and municipal perspective.
- openly communicating the company's environmental policy and performance to all employees.
- ensuring the businesses conduct internal audits and inspections to monitor compliance with the environmental ISO 14001:2015 standard.
- ensuring the businesses investigate environmental incidents to determine the causes and to take the corrective action to prevent recurrences.
- ensuring the businesses identify and implement mitigating measures for environmental aspects and impacts.
- ensuring management provides sufficient resources to mitigate identified aspect and impacts.
- ensuring the businesses identify and provide relevant environmental training and awareness.

Environmental roadmap 2018 – 2020

2018

- All ISO certification credentials are to be issued by approved and qualified certification bodies in all businesses.
- Significant incidents must be reported quarterly and Root Cause Analysis investigations must be undertaken.
- All businesses with ISO 14001:2004 certification to convert to the ISO 14001:2015 version.

2019

- Businesses acquired prior to 31 December 2016 must be ISO 14001:2015 certified.
- Monthly environmental reporting to be audited quarterly.

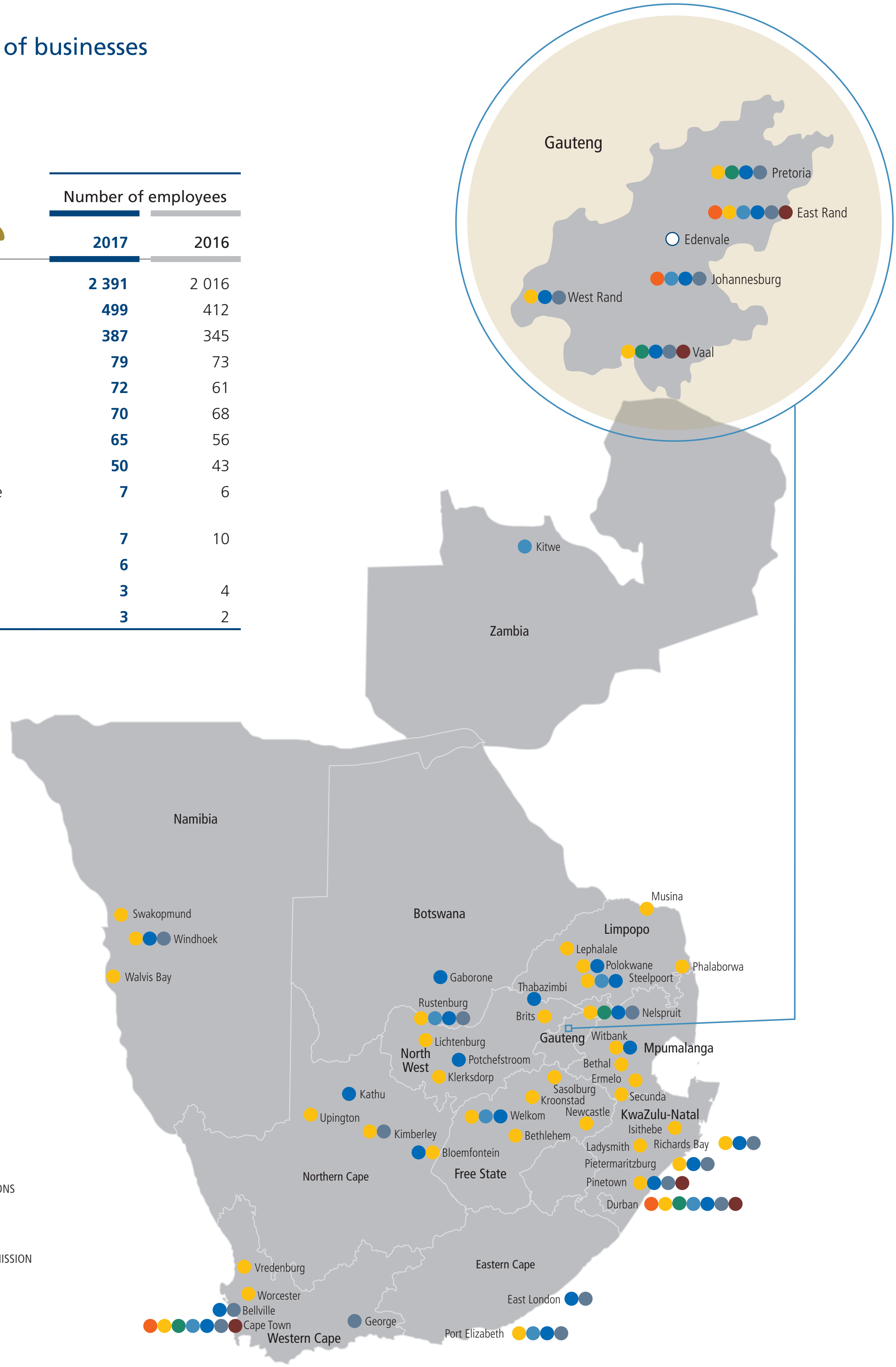
2020

- Reduce energy consumption by 10%.
- Reduce waste to landfill by 10%.

GEOGRAPHIC FOOTPRINT

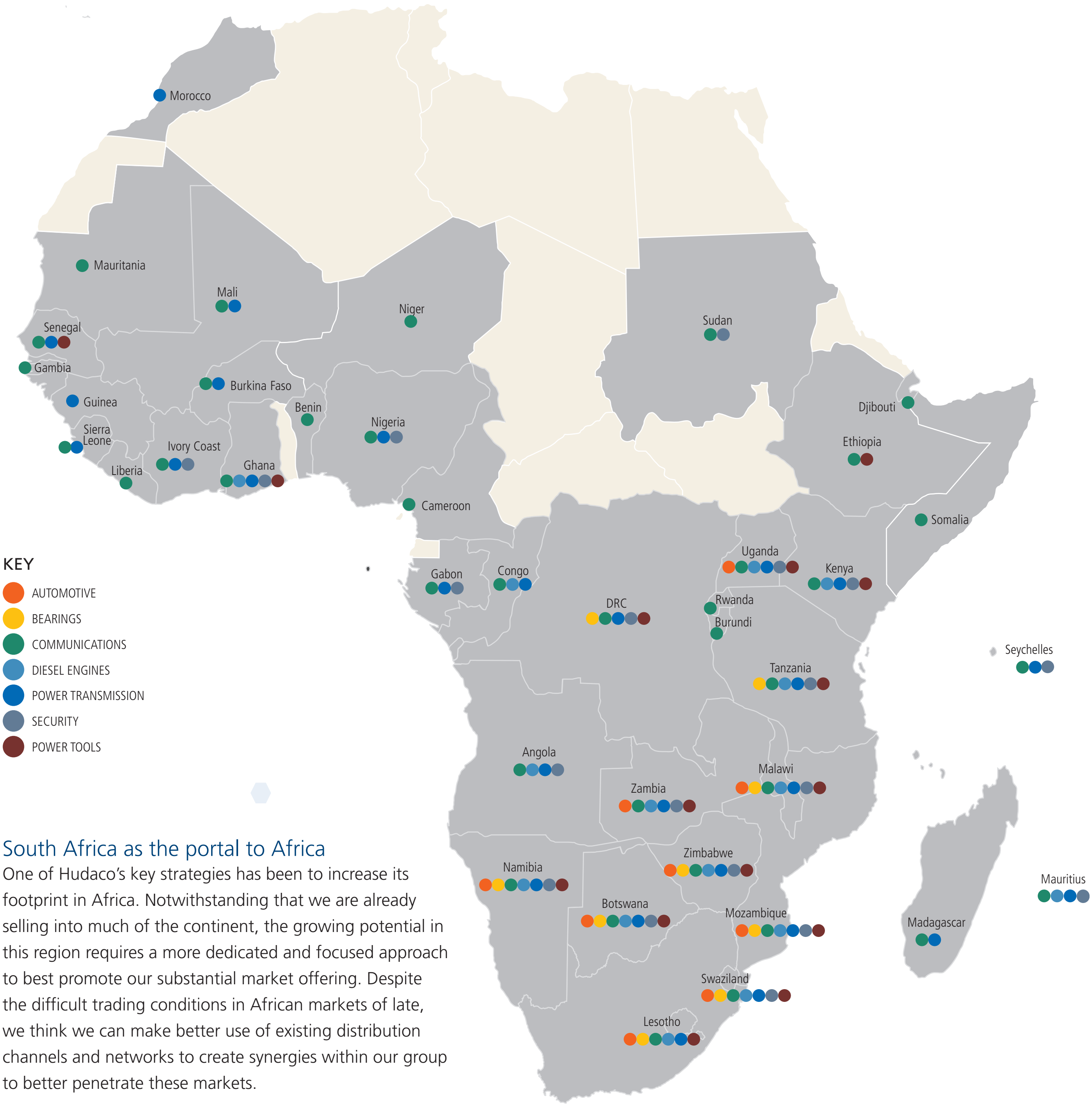
Location of businesses

Number of employees	2017	2016
Gauteng	**2 391**	2 016
Western Cape	**499**	412
KwaZulu-Natal	**387**	345
North West	**79**	73
Mpumalanga	**72**	61
Free State	**70**	68
Eastern Cape	**65**	56
Limpopo	**50**	43
Northern Cape	**7**	6
Namibia	**7**	10
UK	**6**	
Zambia	**3**	4
USA	**3**	2



KEY
- AUTOMOTIVE
- BEARINGS
- COMMUNICATIONS
- DIESEL ENGINES
- HEAD OFFICE
- POWER TRANSMISSION
- SECURITY
- POWER TOOLS

Business with Africa – 2017



South Africa as the portal to Africa

One of Hudaco's key strategies has been 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. Despite the difficult trading conditions in African markets of late, 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

	2017	2016
Total workforce	**3 930**	3 417
Less: Non-permanent employees	**291**	321
Total permanent workforce	**3 639**	3 096
Racial and gender profile		
White males	**768**	712
White females	**417**	398
African, Indian and Coloured males	**1 926**	1 534
African, Indian and Coloured females	**528**	452
Occupational level profile		
Top and senior management	**116**	107
Other management	**1 582**	1 429
Non-management	**1 941**	1 560
Management profile by gender		
Females	**470**	396
Males	**1 228**	1 140
Management profile by race		
White	**966**	893
African, Indian and Coloured	**732**	643
Non-management profile by gender		
Females	**475**	454
Males	**1 466**	1 106

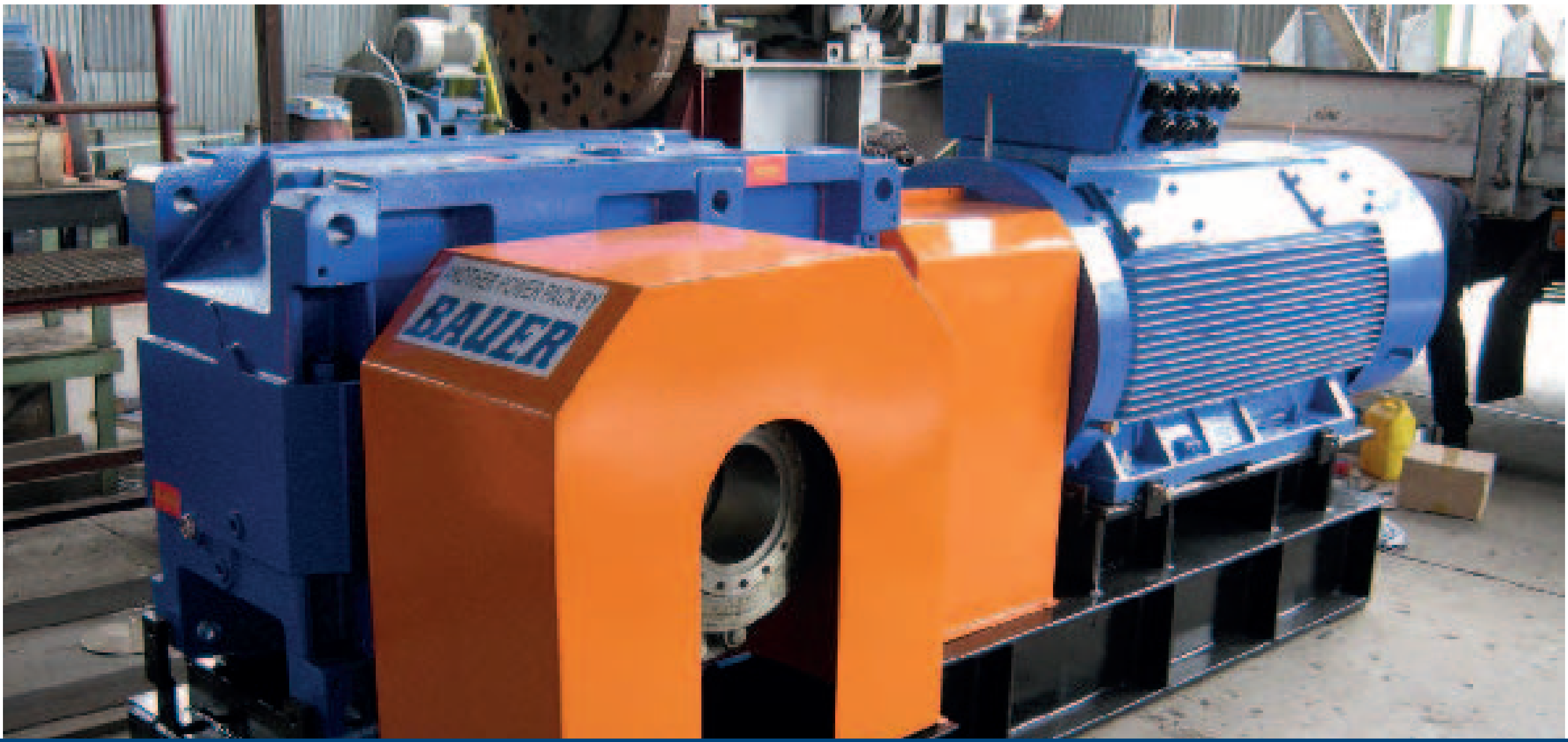
	2017	2016
Non-management profile by race		
White	**219**	217
African, Indian and Coloured	**1 722**	1 343
Disability profile by gender		
Female	**16**	10
Male	**14**	12
Disability profile by race		
White	**9**	8
African, Indian and Coloured	**21**	14

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 16 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 allows 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 2017, 10 senior managers of whom eight were black, were sponsored by the group to study MBA and other master's degrees. Three of the 10 completed their MBA studies in 2017.
- 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. Although we are essentially a group of distribution businesses we run in-house leanerships 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 and managers leadership development programme (MLDP) for middle 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 2017 FLDP had 17 participants, of whom 13 were black, the MLDP had 10 participants, of whom four 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 learnership programme content includes financial administration, human resources administration, inventory management, end user computing and warehousing courses, as well as technical product training. In total 70 (2016: 71) staff members successfully completed their courses in 2017.

GPM, Joseph Grieveson, Dosco, Bearings International, Ernest Lowe, Bosworth, Powermite, Deutz Dieselpower, Elvey, Global Communications, Bauer, Ambro Sales, HERS, Rutherford, Specialised Battery Systems and Deltec run SETA accredited apprenticeship programmes in terms of which participants are trained in various trades. In 2017, 80 (2016: 41) technical and semi-skilled employees participated in the programmes. An additional 140 learners were recruited for a learnership programme run by the Maharishi Institute.

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 (2016: R10,3 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 2017. 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 13 of our programme participants have qualified as engineers through the University of Johannesburg and Vaal University of Technology.

On page 73 is a graphic depicting the overall training initiatives implemented by Hudaco during 2017 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.

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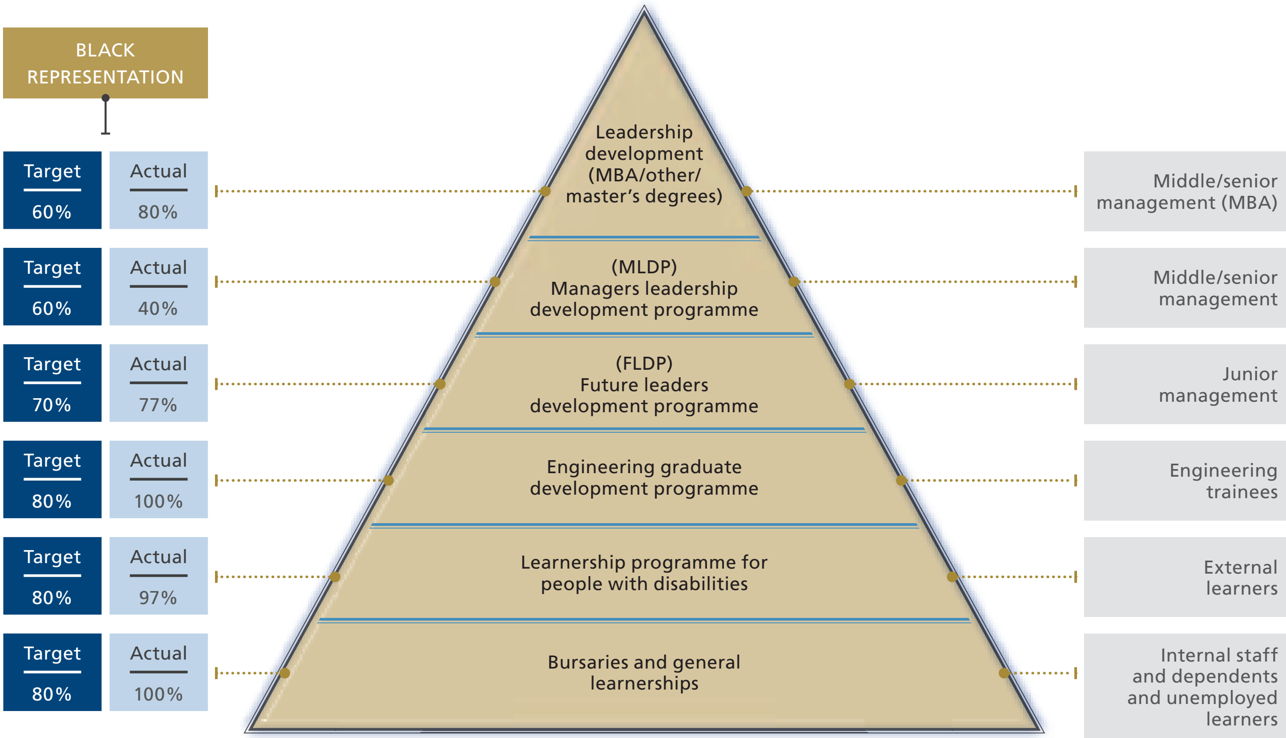
Growing our own talent 2017



Succession planning

A formal performance management and succession policy is in place. We continued with our executive development programme where we employ five young black MBA executive trainees (three of whom are women) and give them a broad range of experience across 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 IV (refer to the summary on page 74). 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.

EMPLOYEE REPORT continued

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

There are 10 trade unions that between them have 596 (2016: 601) employees of various Hudaco businesses as members. These employees are covered by collective bargaining agreements.

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 remuneration is set out in the remuneration report commencing on page 40. 40

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 2017 shows no fatalities, 70 disabling injuries (2016: 88) and a disabling injury frequency rate (DIFR) per 200 000 hours worked of 2,46 (2016: 2,57). The injury rate is slightly lower compared to the previous year.

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 and ISO 9001. 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 2017.

Wellness

Hudaco acknowledges the importance of belonging to a stable and sustainable medical aid scheme, which contributes towards a productive and healthy workforce. The overriding principle is that Hudaco wishes to facilitate that all employees have the opportunity to take up medical scheme cover, while recognising that some employees earn at a level such that private medical cover is prohibitively expensive and that they must, therefore, rely on the state to provide them with healthcare.

Membership of the company's preferred medical scheme (currently Discovery Health) is compulsory for all employees who earn above the compulsory threshold (currently R11 700 per month), unless proof is supplied of membership of another medical scheme as a dependant or, under certain circumstances, if employed in a business before it was acquired by Hudaco. Employees earning below the compulsory threshold have the option to join the medical scheme on the same terms as employees who earn above the compulsory threshold. Members may select any medical aid plan offered by the preferred medical scheme.

All employees who belong to the company's preferred medical scheme must also belong to the company's preferred gap insurance product (currently KaeloXelus). This insurance covers members who experience shortfalls on their hospital claims as a result of co-payments or tariff differences charged by medical professionals.

The company provides a subsidy by paying, for the employee and qualifying dependants (one spouse and up to three child dependants up to age 21), 50% of the premium for the gap insurance and the medical aid plan selected by the member, limited to the level of the Classic Priority plan. The company does not subsidise fees for Discovery Vitality, membership of which is optional. Where a member selects a plan higher than Classic Priority, the company will contribute 50% of the premium for Classic Priority and the member will be responsible for the balance of the premium, including any fees for Discovery Vitality. By definition, members whose remuneration is based on total cost-to-company (senior management) do not benefit from this subsidy.

There were, on average, 1 300 employees on the medical scheme during the year to November 2017. Annual contributions (excluding vitality contributions) totalled R63 million, of which R25 million was covered by the Hudaco subsidy, which was limited to 50% of Classic Priority (top senior executives are remunerated on total cost-to-company and were not included in the subsidy amount). Gap insurance cost a further R2 million.

With the support of Alexander Forbes Health, Hudaco ran a total of 26 employee wellness events 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, 1 024 (2016: 1 188) Hudaco employees of whom 624 (2016: 709) are not on medical aid, took advantage of the opportunity and had a health risk assessment, while 645 (2016: 737) employees checked their HIV status. Altogether, 13 (2016: 37) employees tested positive for HIV, representing 2% of the employees tested, down 3% from 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, 30% of Hudaco employees tested were overweight. This decreased slightly compared to the results in 2016. Without intervention, this could lead to the development of high blood pressure, high cholesterol and diabetes. Altogether, 23% of employees tested had elevated blood pressure, which showed a decrease of 3% compared to 2016. One-on-one health education was available to employees to encourage an active lifestyle that includes physical activity and healthy eating with more emphasis on avoiding foods high in sugar, fat and salt.

EMPLOYEE REPORT continued

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.

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 R8,2 million (2016: R9,8 million) on various enterprise and supplier development initiatives during its 2017 financial year. Some of these included:

- Deltec, Joseph Grieveson and Hudaco head office offering interest-free loans to qualifying black owned businesses;
- HERS continued to offer business support ie assistance through training and mentorship to an SMME;
- Global Communications supported SMMEs in business development and marketing strategies to grow their business;
- Deutz Dieselpower continued its system of early payments to level 4 B-BBEE contributors and supported the services of a black woman optometrist;
- Ambro Steel provided a facility for a black woman optometrist on their premises;
- Abes Technoseal subsidised canteen facilities, owned by a black woman at their premises; and supported an SMME with rent free premises, telephone line, internet usage and utilities;
- FHS and Dosco supports a recycling initiative with black owned SMMEs; and
- Dosco also continued to support a canteen facility owned by a black woman by offering a mobile kitchen kiosk (food trailer).

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 2017, Hudaco donated approximately R2,5 million (2016: R2,4 million) to a variety of socio-economic development initiatives.

Mandela Day

Hudaco in partnership with Afrika Tikkun, a multinational non-profit organisation widely known to be one of the most effective of many devoted to the upliftment of disadvantaged children in South Africa, continued to honour Nelson Mandela Day.

This year, Hudaco's employees delivered 3 000 blankets, 100 boxes of puzzles, 200 food parcels and 25 000 cleaning materials to five community centres run by Afrika Tikkun. 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 B-BBEE codes, for the benefit of all black employees with qualifying service.

In 2017, 90 (2016: 78) students were granted bursaries, of whom 57 were women. Of these, 10 completed their qualifications as depicted in more detail below. The bursaries and study loans amounted to R1,36 million (2016: R1,25 million). For the 2018 academic year 100 students have been identified for bursaries, of whom 60 are women.

Graduate	Description of relationship with Hudaco	Institution	Qualification obtained
Rivani Pillay	Daughter of an Elvey sales representative	University of KwaZulu-Natal	Bachelor of Law (LLB)
Ashley Hammond	Daughter of a Partquip driver	University of the Western Cape	BCom Industrial Psychology & Information Systems
Sharon Phupheli	Engineering trainee at Ernest Lowe	University of Johannesburg	National Diploma: Mechanical Engineering
William Mojapelo	Son of an Elvey driver	University of the Witwatersrand	BSc: Urban and Regional Planning
Snazo Hlomela	Engineering trainee at Bauer	University of Johannesburg	BTech: Mechanical Engineering
Thandiwe Nakedi	Buyer at Partquip	University of Johannesburg	BTech: Operations Management
Lauren Hans	Daughter of a GPM supervisor	Cape Peninsula University of Technology	National Diploma: Events Management
Quality Maluleke	Engineering trainee at Dosco	University of Johannesburg	BTech: Mechanical Engineering
Vongani Mayimele	Technical draughtsman at Bosworth	University of Johannesburg	BTech: Mechanical Engineering
Macia Maelane	Engineering trainee at HERS	University of Johannesburg	National Diploma: Mechanical Engineering

Engineering students 2017

FLDP and MLDP students 2017

EMPLOYEE REPORT continued

Hudaco executive development programme

Malindi Nkambule: Business development director – Astore Keymak

Malindi Nkambule's Hudaco journey

During 2014 Hudaco implemented an executive development programme with the view to exposing young black employees to different areas of the group's business and fast-tracking them to fill senior management positions within the group. The first intake comprised of three female engineers, Malindi Nkambule, Sindi Mbhalati and Gugulethu Nkuta. They were later joined by Sello Moshokwa and Sabelo Mkhwanazi – two male engineers.

Malindi Nkambule, an MBA graduate, who previously worked as a process engineer and strategy consultant, concluded the programme in 2017 and was appointed as business development director at Astore Keymak. (She also holds a BSc Engineering degree and a master's degree in Engineering.)

During the programme, Malindi was exposed to different businesses, markets, products, customers, positions and leadership styles. Malindi's first year was spent as operations manager at Filter and Hose Solutions. She then moved on to strategy development for the Hudaco group, while based at Bearings International in her second year. In her third and final year she was responsible for business analysis and business planning at Deltec and then Keymak, which ultimately led to her appointment as business development director at Astore Keymak.

Participation in the executive development plan has given Malindi a practical understanding of key business disciplines while enabling her to share her own knowledge and past experience in the various roles that she fulfilled. Close interaction with Hudaco's executive team helped her develop her own leadership style and she built a support network on which she continues to rely for sound business advice.

During her studies towards her MBA degree Malindi realised that she had a passion for strategy: as a process engineer, Malindi developed processes which were designed to transform raw materials into a final product. She believes that the same principles applicable to process engineering also apply to the development of business growth strategies. She is excited about her new position and hopes to have a long and very successful career within the Hudaco group.

Malindi's fellow participants on the executive development programme have also secured important senior positions within the group, which bears further testimony to the success of the programme.

Sindi Mbhalati: Operations manager – FHS

Gugulethu Nkutha: Marketing executive – Elvey

Sabelo Mkhwanazi: Still on programme

Sello Moshokwa: Senior manager – Business development – MiRO

AUDITED ANNUAL FINANCIAL STATEMENTS

Audited annual financial statements

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

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 34 to 36.

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 2017 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

1 February 2018

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 2017 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

1 February 2018

DIRECTORS' REPORT

Reporting period

The directors have pleasure in presenting their report for the company's financial year ended 30 November 2017. The annual financial statements for the year ended 30 November 2017 were authorised for issue in accordance with a resolution of the directors on 1 February 2018. 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 2017 were R397 million (2016: R388 million).

The results represent basic earnings per share of 1 254 cents (2016: 1 226 cents). Headline earnings per share were 1 256 cents (2016: 1 222 cents) and comparable earnings per share were 1 251 cents (2016: 1 171 cents).

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

Dividends

R million	**2017**	2016
Dividend number 60 of 355 cents per share declared on 2 February 2017	**121**	118
The record date was 3 March 2017 and the dividend was paid on 6 March 2017		
Dividend number 61 of 180 cents per share declared on 29 June 2017	**61**	58
The record date was 11 August 2017 and the dividend was paid on 14 August 2017		

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

On 1 February 2018 the directors declared dividend number 62 of 380 cents per share, being the final dividend in respect of the year ended 30 November 2017. The record date will be Friday, 2 March 2018 and the dividend will be paid on Monday, 5 March 2018.

Subsidiaries

Particulars of the principal subsidiaries of the company are set out on page 118 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 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 3 February 2018, 3 February 2019 and 3 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 3 February 2018, 3 February 2019 and 3 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 The Dished End Company (Dished End)

With effect from 1 May 2017 Hudaco acquired the trading assets and liabilities of Dished End, a manufacturer of dished ends, which are the end caps on pressure vessels. These ends vary from 0,4m to 5,5m in diameter and from 4mm to 25mm in thickness. They are manufactured in various metals as required by the particular type of vessel. Dished End also offers the pressing and flanging of small conical sections and a range of single pressed weld caps.

The purchase consideration, subject to a maximum of R79 million, is to be settled as follows: an initial amount of R36 million that was paid in cash on 18 May 2017 and the balance payable in cash in three tranches on 4 July 2018, 4 July 2019 and 4 July 2020 based on actual levels of average profitability achieved in the years to 30 April 2018, 30 April 2019 and 30 April 2020.

Acquisition of the share capital of Gear Pump Distributors (UK)

With effect from 1 June 2017 Hudaco acquired 100% of the shares in Gear Pump Distributors (UK) Ltd. This business imports and distributes hydraulic gear pumps manufactured by GPM.

The purchase consideration was R11 million.

Acquisition of the trading assets and liabilities of EBTSA and MMD Steel Products (Eternity)

With effect from 1 August 2017 Hudaco acquired the trading assets and liabilities of Eternity, a leading supplier of batteries, high-frequency chargers, and related battery management equipment to the traction battery market in southern Africa. Eternity also designs, builds and manages battery bays for warehouses and distribution centres in southern Africa. Battery tanks and changeover equipment are manufactured locally, while cells and chargers are sourced from the UAE and Austria.

The purchase consideration, subject to a maximum of R248 million, is to be settled as follows: an initial amount of R68 million was paid in cash on 8 August 2017 and the balance is payable in cash in three tranches on 4 October 2018, 4 October 2019 and 4 October 2020 based on average levels of profitability achieved in each of the years to 31 July 2018, 31 July 2019 and 31 July 2020.

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 April 2018, 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 2017 are contained in notes 17.1 and 17.2 to the financial statements.

Share-based remuneration schemes

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

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.

During the 2017 financial year the directorate underwent the following changes: Stuart Morris, who joined the board on 12 January 2009, retired as independent non-executive director on 30 June 2017. By way of succession, the board appointed Mark Thompson as independent non-executive director with effect from 20 June 2017. He was also appointed as chairman of the remuneration committee and a member of the audit and risk management committee and the nomination committee. He will be retiring at the forthcoming annual general meeting on 5 April 2018, but is eligible for re-election.

With effect from 1 November 2017 Stephen Connelly, an existing non-executive director of the board, was appointed as member of the remuneration committee and nomination committee.

In terms of the company's memorandum of incorporation, Stephen Connelly and Nyami Mandindi are required to retire by rotation at the forthcoming annual general meeting.

DIRECTORS' REPORT continued

All these directors are available, eligible and recommended for re-election.

Royden Vice will be retiring from the board after the annual general meeting to be held on 5 April 2018. Stephen Connelly will succeed him as chairman. Daisy Naidoo will assume the role of lead independent director and will join the nomination committee. Nyami Mandindi will join the remuneration committee.

Directors' interests

The directors' interests in the issued shares of the company are set out in note 26.1.

Details of the executive directors' interests in the Hudaco share appreciation bonus scheme and share matching scheme are provided in the implementation of the remuneration policy section of the remuneration report, specifically dealing with executive directors' remuneration as set out on pages 45 to 48.

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 the implementation of the remuneration policy section of the remuneration report, specifically dealing with executive directors' remuneration as set out on pages 45 to 48 and non-executive directors' remuneration on page 53.

Information on the executive directors' service agreements is set out on page 44.

Secretary

Reana van Zyl is the secretary of the company. The address of the secretary is set out on page 129.

Borrowing powers

The borrowing powers of the Hudaco group are unlimited. At 30 November 2017 unutilised borrowing facilities amounted to R724 million (2016: R691 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.

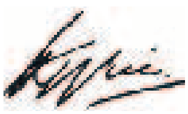
The external auditors are responsible for carrying out an independent examination of the financial statements in accordance with International Standards on Auditing and reporting their findings thereon. The auditor's report is set out on pages 85 to 87.

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 2017, which appear on pages 81 to 118, were approved by the board on 1 February 2018 and are signed on its behalf by:



RT Vice
Chairman

GR Dunford
Chief executive

1 February 2018

INDEPENDENT AUDITOR'S REPORT

To the shareholders of Hudaco Industries Limited

Report on the financial statements

Opinion

We have audited the consolidated and separate financial statements of Hudaco Industries Limited and its subsidiaries ("the group") set out on pages 88 to 118, which comprise the statements of financial position as at 30 November 2017, and the statements of profit or loss and other comprehensive income, the statements of changes in equity and the statements of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated and separate financial statements present fairly, in all material respects, the consolidated and separate financial position of the group as at 30 November 2017, 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.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities in those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated and Separate Financial Statements* section of our report. We are independent of the group in accordance with the Independent Regulatory Board for Auditors *Code of Professional Conduct for Registered Auditors (IRBA Code)* and other independence requirements applicable to performing audits of financial statements in South Africa. We have fulfilled our other ethical responsibilities in accordance with the IRBA Code and in accordance with other ethical requirements applicable to performing audits in South Africa. The IRBA Code is consistent with the International Ethics Standards Board for Accountants *Code of Ethics for Professional Accountants* (Parts A and B). We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated and separate financial statements of the current period. These matters were addressed in the context of our audit of the consolidated and separate financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

The following key audit matters relate to the consolidated financial statements. We have determined that there are no key audit matters in respect of the separate financial statements.

Key audit matter	How our audit addressed the key audit matter
Impairment testing and valuation of goodwill. In terms of IAS 36 *Impairment of Assets*, the group is required to test the carrying value of goodwill for impairment annually. This is performed using discounted free cash flow models for the various cash generating units ("CGUs"). Due to the carrying value of the goodwill balance representing 32% of total assets as at 30 November 2017, as well as the fact that significant judgement is used in determining the inputs into the free cash flow models, it has been determined to be a key audit matter. As disclosed in note 12, goodwill increased by R237 million to R1 480 million as a result of acquisitions in the current financial year. No impairment was recognised with respect to goodwill in the current financial year.	In evaluating the goodwill, we performed various procedures, including the following: • utilised our corporate finance specialist to assess the reasonableness of the discounted free cash flow model used for the value in use calculation and to evaluate the key assumptions and inputs into the model, in particular those relating to the pre-tax discount rate, revenue growth rates and terminal growth rates against external market data; • tested the mathematical accuracy of the models; • held discussions with management to understand the key assumptions applied; • performed sensitivity analyses on the key assumptions and inputs; • considered the reasonableness of management's forecasts based on the actual performance for the financial year just ended and changes expected to occur in each CGU's business; and • reviewed the historical budgeting accuracy of the group. We assessed the adequacy of the group's disclosure (refer note 12) about those assumptions to which the outcome of the annual impairment test is most sensitive. That is, those disclosures that have the most significant effect on the determination of the recoverable amount of goodwill.

INDEPENDENT AUDITOR'S REPORT continued

Key audit matter	How our audit addressed the key audit matter
Accounting for the acquisition of businesses. As disclosed in note 20, the Group acquired several businesses during the current financial year. In terms of IFRS 3 *Business Combinations* the acquisition method is used for all business combinations, which involves the following steps: • identification of the acquirer; • determination of the acquisition date; • recognition and measurement of identifiable assets acquired and the liabilities assumed. • recognition and measurement of goodwill or a gain from a bargain purchase. The transaction involves significant management judgment with regard to the purchase price allocation, including the identification and valuation of intangible assets not previously recognised. Accordingly, the acquisition has been considered to be a key audit matter.	In addressing this matter we focused our work on: • reviewing the legal agreements to ensure that the acquisitions are accounted for in accordance with their stated terms and at the correct acquisition date; • assessing the appropriateness of the fair values assigned to the separately identified intangible assets not previously recognised by the acquiree; • reviewing the completeness of the actual and contingent liabilities assumed in the business combinations; • critically assessing management's measurement of the acquisition date fair values of the identifiable assets recognised and liabilities assumed and the related allocation of the purchase price to those assets and liabilities by evaluating the key assumptions used; and • testing the mathematical accuracy of the determination of the goodwill as disclosed in notes 12 and 20. We also evaluated the presentation and disclosure of the transaction within the consolidated financial statements as required by IFRS 3 *Business Combinations.*

Other information

The directors are responsible for the other information. The other information comprises the directors' report, the audit committee's report and the company secretary's certificate as required by the Companies Act of South Africa, which we obtained prior to the date of this report, and the Integrated Report, which is expected to be made available to us after that date. Other information does not include the consolidated and separate financial statements and our auditor's report thereon.

Our opinion on the consolidated and separate financial statements does not cover the other information and we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the consolidated and separate financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated and separate financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the consolidated and separate financial statements

The directors are responsible for the preparation and fair presentation of the 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.

In preparing the consolidated and separate financial statements, the directors are responsible for assessing the group's and the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going-concern basis of accounting unless the directors either intend to liquidate the group and/or the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the consolidated and separate financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated and separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated and separate financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated and separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 group's and the company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the group's and the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated and separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the group and/or the company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated and separate financial statements, including the disclosures, and whether the consolidated and separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the consolidated and separate financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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 32 years.

Grant Thornton

Grant Thornton
Registered Auditors
Practice number: 903485E

VR de Villiers
Partner
Registered Auditor
Chartered Accountant (SA)

1 February 2018

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

GROUP STATEMENT OF COMPREHENSIVE INCOME

for the year ended 30 November 2017

R000	Notes	2017	2016
Turnover		**5 901 594**	5 534 233
Ongoing operations		**5 203 097**	5 252 482
Operations acquired after December 2015		**698 497**	281 751
Cost of sales		**3 704 047**	3 535 831
Gross profit		**2 197 547**	1 998 402
Operating expenses	5	**1 521 510**	1 359 036
Operating profit	5	**676 037**	639 366
Ongoing operations		**591 459**	598 780
Operations acquired after December 2015		**84 578**	40 586
Adjustment to fair value of amounts due to vendors of businesses acquired		**2 193**	19 163
Profit before interest		**678 230**	658 529
Finance costs	6	**103 520**	100 579
Profit before taxation		**574 710**	557 950
Taxation	8	**155 996**	147 613
Profit after taxation		**418 714**	410 337
Equity-accounted income from joint venture	11	**3 440**	2 665
Profit for the year		**422 154**	413 002
Other comprehensive loss to be reclassified to profit and loss subsequently		**(2 403)**	(7 982)
Loss on fair value of cash flow hedges – current year		**(3 973)**	(4 235)
Adjustments for amounts transferred to the initial cost of inventory	15	**4 235**	(3 244)
Tax effect of the above		**1 112**	
Exchange loss on translation of foreign operations		**(3 777)**	(503)
Total comprehensive income for the year		**419 751**	405 020
Profit attributable to:			
– Equity holders of the parent		**396 849**	387 916
– Non-controlling shareholders	17.7	**25 305**	25 086
		422 154	413 002
Total comprehensive income attributable to:			
– Equity holders of the parent		**394 841**	381 140
– Non-controlling shareholders	17.7	**24 910**	23 880
		419 751	405 020
Basic earnings per share (cents)	9	**1 254**	1 226
Diluted basic earnings per share (cents)	9	**1 241**	1 222

GROUP STATEMENT OF FINANCIAL POSITION
at 30 November 2017

R000	Notes	2017	2016
ASSETS			
Non-current assets		**1 844 549**	1 611 263
Property, plant and equipment	10	**270 241**	256 106
Investment in joint venture	11	**9 575**	6 700
Goodwill	12	**1 480 061**	1 242 736
Intangible assets	13	**70 478**	67 821
Deferred taxation	14	**14 194**	37 900
Current assets		**2 776 235**	2 618 900
Inventories	15	**1 537 934**	1 508 099
Trade and other receivables	16	**1 155 533**	1 046 001
Taxation		**1 715**	17 597
Bank deposits and balances		**81 053**	47 203
TOTAL ASSETS		**4 620 784**	4 230 163
EQUITY AND LIABILITIES			
Equity		**2 376 597**	2 129 400
Equity holders of the parent		**2 295 143**	2 064 756
Non-controlling interest	17.7	**81 454**	64 644
Non-current liabilities		**890 297**	869 365
Amounts due to bankers	18.1	**675 000**	710 000
Amounts due to vendors of businesses acquired	18.2	**214 573**	147 991
Deferred taxation	14	**724**	11 374
Current liabilities		**1 353 890**	1 231 398
Trade and other payables	19	**942 714**	897 935
Bank overdraft		**266 324**	242 184
Amounts due to vendors of businesses acquired	18.2	**117 413**	75 889
Taxation		**27 439**	15 390
TOTAL EQUITY AND LIABILITIES		**4 620 784**	4 230 163

GROUP STATEMENT OF CASH FLOWS

for the year ended 30 November 2017

R000	Notes	2017	2016
Cash flow from operating activities			
Operating profit		**676 037**	639 366
Adjusted for:			
Equity-settled share-based payments		**20 942**	7 462
Depreciation and loss/profit on disposal of property, plant and equipment		**47 266**	41 606
Amortisation of intangible assets		**27 794**	24 096
(Increase) decrease in working capital	22.1	**(61 130)**	33 418
Cash generated from operations		**710 909**	745 948
Taxation paid	22.2	**(130 890)**	(174 164)
Net cash from operating activities		**580 019**	571 784
Cash flow from investing activities			
Additions to property, plant and equipment	10	**(52 198)**	(36 190)
Proceeds from disposal of property, plant and equipment		**5 030**	6 576
Acquisition of businesses	20	**(129 856)**	(148 741)
Decrease in loan to joint venture		**565**	2 630
Payments to vendors of businesses acquired	22.3	**(80 748)**	(19 437)
Net cash from investing activities		**(257 207)**	(195 162)
Cash flow from financing activities			
Decrease in non-current amounts due to bankers		**(35 000)**	(90 000)
Share-based payments settled*		**(16 091)**	(4 620)
Finance costs paid	22.4	**(80 847)**	(86 930)
Dividends paid	22.5	**(177 405)**	(173 625)
Net cash from financing activities		**(309 343)**	(355 175)
Decrease in net bank overdraft		**13 469**	21 447
Foreign exchange translation loss		**(3 759)**	(514)
Net bank overdraft at beginning of the year		**(194 981)**	(215 914)
Net bank overdraft at end of the year	22.6	**(185 271)**	(194 981)

* *Reclassified from operating activities in 2016 – refer to note 22.7.*

GROUP STATEMENT OF CHANGES IN EQUITY
for the year ended 30 November 2017

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 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
Balance at 1 December 2016	**3 415**	**51 533**	**63 920**	**1 964 594**	**2 083 462**	**64 644**	**2 148 106**
Comprehensive income for the year			**(2 008)**	**396 849**	**394 841**	**24 910**	**419 751**
Movement in equity compensation reserve			**16 120**	**(11 269)**	**4 851**		**4 851**
Dividends (note 21)				**(169 305)**	**(169 305)**	**(8 100)**	**(177 405)**
Balance at 30 November 2017	**3 415**	**51 533**	**78 032**	**2 180 869**	**2 313 849**	**81 454**	**2 395 303**
Less: Shares held by subsidiary company	**(251)**		**(41)**	**(18 414)**	**(18 706)**		**(18 706)**
Net balance at 30 November 2017	**3 164**	**51 533**	**77 991**	**2 162 455**	**2 295 143**	**81 454**	**2 376 597**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 30 November 2017

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.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS continued

for the year ended 30 November 2017

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 adjusted for the same period in which the hedged future transaction occurs.
- 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, UK, 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.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS continued

for the year ended 30 November 2017

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 aftermarket, 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 material 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. • This standard is not expected to have a material impact on the financial statements of the group.	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 IAS 17's approach to lessor accounting and introduces new disclosure requirements. • The impact of the standard has been assessed during the year. There is still uncertainty as to whether options to renew at a rental, to be determined on a market basis at the time of renewal, are required to be included in the calculation. On the conservative assumption that they will have to be included, had this standard been adopted at the beginning of the current financial year the right-of-use asset and corresponding lease liability raised at that date would have been approximately R640 million using the incremental interest rate of the group of 8,8%. The current year's profit after tax attributable to equity holders of the parent would have reduced by approximately R8,4 million.	1 January 2019

NOTES TO THE ANNUAL FINANCIAL STATEMENTS continued

for the year ended 30 November 2017

R000	2017	2016

5. Operating profit

Operating expenses comprise:		
Staff costs	**1 076 114**	960 052
Property rentals under operating leases	**112 035**	103 343
Depreciation	**46 074**	43 518
Amortisation	**27 794**	24 096
Loss (profit) on disposal of property, plant and equipment	**1 192**	(1 912)
Acquisition costs – new businesses	**914**	1 958
Other expenses	**399 986**	360 372
Allocated to cost of sales	**(142 599)**	(132 391)
	1 521 510	1 359 036

6. Finance costs

Interest on amounts due to bankers and other payables	**80 847**	86 930
Interest imputed on amounts due to vendors of businesses acquired	**22 673**	13 649
	103 520	100 579

7. Auditor's remuneration

Audit fees – current year	**8 772**	8 206
Fees for other services	**38**	227
	8 810	8 433

8. Taxation

8.1 Taxation comprises

South African normal taxation		
Current year	**156 165**	175 129
Prior years under provision	**606**	106
Deferred taxation		
Current year	**(1 367)**	(25 617)
Prior years over provision	**(412)**	(2 127)
Foreign normal taxation	**1 004**	122
Total taxation	**155 996**	147 613
	%	%

8.2 Reconciliation of rate of taxation

Normal rate	**28,0**	28,0
Exempt income	**(1,3)**	(1,5)
Disallowable expenditure	**0,4**	0,4
Prior year over provision		(0,4)
Effective rate of taxation	**27,1**	26,5

R000	2017	2016

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

	2017	2016
Calculation of headline earnings		
Profit attributable to equity holders of the parent	**396 849**	387 916
Adjusted for:		
Loss (profit) on disposal of plant and equipment	**1 192**	(1 912)
Tax effect	**(334)**	535
Non-controlling interest	**(111)**	243
Headline earnings	**397 596**	386 782
Calculation of comparable earnings		
Headline earnings as per above	**397 596**	386 782
Adjusted for:		
Fair value adjustments on amounts due to vendors	**(2 193)**	(19 163)
Non-controlling interest	**328**	2 874
Comparable earnings	**395 731**	370 493
Earnings per share (cents)		
Basic	**1 254**	1 226
Diluted basic	**1 241**	1 222
Headline	**1 256**	1 222
Diluted headline	**1 243**	1 219
Comparable	**1 251**	1 171
Diluted comparable	**1 237**	1 168

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 (2016: 31 645 703) shares in issue during the year, taking account of shares held by a subsidiary.

Comparable earnings and comparable earnings per share are calculated, as the directors of the company believe these are more reliable measures of the ongoing trading performance of the group.

The calculation of diluted earnings per share is based on 31 981 071 (2016: 31 732 081) shares, being the weighted average number of shares in issue of 31 645 703 plus 335 368 (2016: 86 378) 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 R136,00 (2016: R108,05) 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.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS continued

for the year ended 30 November 2017

10. Property, plant and equipment

R000	Freehold land	Buildings	Plant	Computers	Motor vehicles	Other assets	2017 Total
Cost							
Opening balance	**19 037**	**73 068**	**162 211**	**106 774**	**114 273**	**61 082**	**536 445**
Exchange differences			**(10)**		**(19)**	**(3)**	**(32)**
Acquisition of businesses			**20 287**	**3 167**	**9 782**	**1 584**	**34 820**
Additions			**12 499**	**21 472**	**12 128**	**6 099**	**52 198**
Disposals			**(278)**	**(1 526)**	**(12 651)**	**(5 055)**	**(19 510)**
Closing balance	**19 037**	**73 068**	**194 709**	**129 887**	**123 513**	**63 707**	**603 921**
Accumulated depreciation							
Opening balance		**10 997**	**98 493**	**71 639**	**60 463**	**38 747**	**280 339**
Exchange differences			**(4)**		**(9)**	**(1)**	**(14)**
Acquisition of businesses			**12 884**	**2 295**	**4 293**	**1 097**	**20 569**
Depreciation for the year		**1 584**	**11 324**	**12 681**	**14 167**	**6 318**	**46 074**
Disposals			**(178)**	**(1 402)**	**(9 324)**	**(2 384)**	**(13 288)**
Closing balance		**12 581**	**122 519**	**85 213**	**69 590**	**43 777**	**333 680**
Net book value	**19 037**	**60 487**	**72 190**	**44 674**	**53 923**	**19 930**	**270 241**

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
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

Hudaco Trading (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.

	2017	2016
Total net assets of Ironman 4X4 Africa RF (Pty) Ltd	**19 208**	12 327
Proportion of ownership interests held by the group	**50%**	50%
Ownership interests held by the group	**9 604**	6 164
Loan account	**(29)**	536
Carrying amount of investment in joint venture	**9 575**	6 700

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	2017	2016

12. Goodwill

12.1 Goodwill comprises:

Goodwill at cost	**1 502 150**	1 264 825
Accumulated impairment	**(22 089)**	(22 089)
	1 480 061	1 242 736

12.2 Movement for the year

Balance at beginning of the year	**1 242 736**	1 001 073
Acquisitions during the year	**237 325**	241 663
	1 480 061	1 242 736

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**	171 069
Eternity Technologies	**157 838**	
Global Communications	**127 685**	127 685
Astore Keymak	**66 973**	66 973
Joseph Grieveson	**55 834**	55 834
The Dished End Company	**51 212**	
Pentagon	**43 088**	43 088
Ambro Steel	**37 370**	37 370
Dosco Precision Hydraulics	**34 937**	34 937
Brewtech Engineering	**33 699**	33 699
Powermite	**26 589**	26 589
Hydraulic Engineering Repair Services	**22 850**	22 850
SS Telecoms	**21 744**	
Gear Pump Manufacturing	**21 011**	21 011
Specialised Battery Systems	**14 955**	14 955
Abes Technoseal	**14 435**	14 435
All-Trade	**14 045**	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
Commercial ICT	**6 460**	
Other	**8 874**	8 803
	1 480 061	1 242 736

Goodwill arises on acquisitions because the cost of acquisitions includes amounts that are not recognised separately from goodwill as they do not meet the recognition criteria for identifiable intangible assets. These include premiums paid for control, amounts in relation to the benefit of expected synergies, revenue growth, future market development and diversification of revenue streams.

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 any 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, especially forecast consumer price index increases, approved by the executive and their impact on turnover and operating margins. Assumptions are generally consistent with external sources of information and with past experience of the impact thereof on the group's cash flow. In the absence of specific factors or strategies that may be expected to have a significant impact on margins, it is assumed that gross margins will remain unchanged from those of recent years.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS continued
for the year ended 30 November 2017

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 of turnover 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 pre-tax weighted average cost of capital (WACC), which takes into account appropriate risk-free rates adjusted for market risk, company specific risk, cost of debt and the relevant weighting between debt and equity. The WACC applied to all CGUs is 15,9%. 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. The recoverable amounts determined for goodwill comfortably, and in most cases far, exceeded the carrying values thereof.

13. Intangible assets

R000	Customer relationships	Trade names	Supplier contracts	2017 Total
Cost				
Opening balance	**144 810**	**53 670**	**9 287**	**207 767**
Acquisition of businesses	**26 886**	**3 565**		**30 451**
Closing balance	**171 696**	**57 235**	**9 287**	**238 218**
Accumulated amortisation				
Opening balance	**90 903**	**29 257**	**9 287**	**129 447**
Amortisation for the year	**20 845**	**6 949**		**27 794**
Closing balance	**111 748**	**36 206**	**9 287**	**157 241**
Accumulated impairment				
Opening and closing balance	**6 083**	**4 416**		**10 499**
Net book value	**53 865**	**16 613**		**70 478**

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
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	2017	2016

14. Deferred taxation

14.1 Deferred taxation comprises temporary differences arising from:

	2017	2016
Capital allowances	**(24 215)**	(24 113)
Imputed interest due to vendors	**(11 243)**	(8 761)
Intangible assets	**(19 935)**	(19 191)
Doubtful debt allowances	**6 106**	6 724
Leave pay and bonus accruals	**49 596**	39 263
Calculated tax loss	**4 198**	37 367
Fair value of cash flow hedges	**1 112**	
Other	**7 851**	(4 763)
Net deferred taxation asset	**13 470**	26 526
Deferred taxation is reflected on the group statement of financial position as follows:		
Deferred tax assets	**14 194**	37 900
Deferred tax liabilities	**(724)**	(11 374)
	13 470	26 526

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

	2017	2016
Balance at beginning of the year	**26 526**	15 412
Arising on acquisitions during the year		
Capital allowances		353
Imputed interest due to vendors	**(8 830)**	(11 715)
Intangible assets	**(8 527)**	(6 532)
Doubtful debt allowances	**146**	163
Leave pay and bonus accruals	**1 264**	1 101
Raised (utilised) during the year (including prior years over provision)		
Capital allowances	**(102)**	(959)
Imputed interest due to vendors	**6 348**	3 785
Intangible assets	**7 783**	6 747
Doubtful debt allowances	**(764)**	(417)
Leave pay and bonus accruals	**9 069**	4 496
Calculated tax loss	**(33 169)**	16 409
Fair value of cash flow hedges	**1 112**	
Other	**12 614**	(2 317)
	13 470	26 526

15. Inventories

	2017	2016
Merchandise	**1 479 150**	1 454 285
Raw materials and components	**27 267**	20 179
Work in progress	**31 517**	33 635
	1 537 934	1 508 099
Cost of inventory recognised as an expense in cost of sales	**3 571 448**	3 403 440
Inventory that is expected to be sold after more than 12 months	**112 000**	88 000
Write-down of inventory to net realisable value and losses of inventory	**9 209**	13 705
Amounts removed during the year from the cash flow hedging reserve increasing (reducing) the initial cost of inventories	**4 235**	(3 244)

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.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS continued

for the year ended 30 November 2017

R000	2017	2016

16. Trade and other receivables

	2017	2016
Trade receivables	**1 028 297**	931 542
Allowance for doubtful receivables	**(25 937)**	(28 652)
Other receivables	**128 283**	127 254
Pre-payments	**24 890**	15 857
	1 155 533	1 046 001
Allowance for doubtful receivables:		
Balance at beginning of the year	**28 652**	26 750
Additional allowance charged to profit	**7 648**	11 865
Allowance reversed to profit	**(2 934)**	(3 353)
Allowance utilised	**(7 950)**	(7 193)
Acquisitions during the year	**521**	583
	25 937	28 652

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 R135 million (2016: R136 million) were past due but not impaired, being customers of whom there is no recent history of default and are aged as follows:

	2017	2016
Less than 30 days since date due	**61 238**	51 203
Between 31 and 60 days	**24 574**	37 484
Between 61 and 90 days	**11 291**	11 080
More than 90 days	**38 001**	35 807
	135 104	135 574

17. Shareholders' equity

17.1 Authorised share capital

	2017	2016
40 000 000 ordinary shares of 10 cents each	**4 000**	4 000

17.2 Issued share capital

	2017	2016
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

	2017	2016
Income retained in:		
Company	**188 384**	174 863
Subsidiary companies	**1 965 000**	1 765 686
Joint venture	**9 071**	5 631
	2 162 455	1 946 180

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	**2017**	2016
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 the share appreciation bonus scheme in the future	**4 003**	4 003
Shares required to meet obligations in terms of the share-based remuneration schemes(1)	**778**	519
	3 225	3 484

(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)	
	2017	2016	**2017**	2016
Rights not taken up at beginning of the year	**10 159**	9 963	**3 129**	2 688
Rights granted during the year	**12 510**	10 293	**699**	787
Forfeited during the year	**(10 356)**	(10 104)	**(25)**	(209)
Rights exercised during the year	**(8 269)**	(7 200)	**(262)**	(137)
Rights not taken up at end of the year	**10 762**	10 159	**3 541**	3 129
Already exercisable	**9 457**	8 824	**728**	501
First exercisable in the financial years ending:				
November 2017		9 490		512
November 2018	**10 365**	10 372	**651**	648
November 2019	**10 552**	10 551	**750**	752
November 2020	**11 722**	11 326	**700**	467
November 2021	**11 365**	10 293	**482**	249
November 2022	**12 510**		**230**	
	10 762	10 159	**3 541**	3 129

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 other participants there are no 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, while for those awarded in 2017 the weighting is 70% on return on equity and 30% on ceps growth.

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for the year ended 30 November 2017

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)	
	2017	2016	**2017**	2016
Rights not taken up at beginning of the year	**10 826**	11 747	**190**	52
Rights granted during the year	**13 845**	10 478	**40**	138
Rights forfeited during the year	**(11 181)**		**(7)**	
Rights exercised during the year	**(10 386)**		**(8)**	
Rights not taken up at end of the year	**11 390**	10 826	**215**	190

37 616 of these shares are first exercisable in the financial year ending November 2018, 137 832 in the financial year ending November 2019 and the remaining 39 742 in the financial year ending November 2020.

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	1 Jul 09	7 Aug 10	13 Jul 11	27 Jul 12	12 Jul 13	25 Jul 14	10 Jul 15	20 Jul 16	**24 Jul 17**
Number of rights granted	578 500	276 333	277 534	405 433	464 250	932 080	710 300	787 420	**698 950**
Rights forfeited	(57 316)	(52 668)	(69 168)	(123 967)	(84 000)	(59 800)	(36 300)	(32 700)	**(1 000)**
Rights taken up	(516 924)	(197 332)	(151 862)	(79 298)	(72 136)	(50 150)	(4 200)[(1)]		
Rights still outstanding	4 260	26 333	56 504	202 168	308 114	822 130	669 800	754 720	**697 950**
Vested rights	4 260	26 333	56 504	202 168	184 560	253 310			
Unvested rights					123 554	568 820	669 800	754 720	**697 950**
Exercise price (R) – strike price (10-day VWAP)	50,50	68,09	81,05	109,26	90,80	92,04	125,24	102,93	**125,10**
Share price at grant date (R)	55,00	68,99	80,85	108,49	90,30	91,92	129,63	104,21	**127,40**
Expected volatility (%)[(2)]	28	27	34	25	21	21	21	28	**28**
Expected dividend yield (%)	4,0	6,0	5,4	5,2	4,7	4,6	4,3	4,8	**4,7**
Risk-free rate (%)	8,6	7,3	7,1	5,9	7,4	7,6	7,8	8,1	**7,7**
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)	16,71	12,84	21,66	20,00	18,26	18,96	29,88	29,54	**37,23**

Share matching scheme

Granted during	2014	2015	2016	**2017**
Number of rights granted	8 168	43 848	137 832	**39 742**
Number of rights forfeited		(3 215)	(2 957)	
Number of rights exercised	(8 168)			
Unvested rights		40 633	134 875	**39 742**
Share price at grant date (R)	102,79	117,77	109,50	**138,45**
Expected volatility (%)[(2)]	21	21	29	**28**
Expected dividend yield (%)	4,6	4,6	3,7	**4,7**
Risk-free rate (%)	7,1	6,2	8,1	**7,7**
Vesting period (years)	3	3	3	**3**
Estimated fair value per right (R)	90,32	103,37	94,17	**124,60**

(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	**2017**	2016
Employee share-based payment expense included in operating profit arising from:		
Share appreciation scheme	**14 424**	2 705
Share matching scheme	**6 518**	4 757
	20 942	7 462

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 2015	332	3 244	(78)	34 399	37 326	75 223
Other comprehensive loss 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
Balance at 30 November 2016	**332**	**(3 603)**	**(473)**	**30 338**	**37 326**	**63 920**
Other comprehensive loss for the year		**1 179**	**(3 187)**			**(2 008)**
Increase in equity compensation reserves				**16 120**		**16 120**
Balance at 30 November 2017	**332**	**(2 424)**	**(3 660)**	**46 458**	**37 326**	**78 032**
Less: Shares held by subsidiary company	**(41)**					**(41)**
Net balance at 30 November 2017	**291**	**(2 424)**	**(3 660)**	**46 458**	**37 326**	**77 991**

17.7 Non-controlling interest

	Hudaco Trading (Pty) Ltd		DD Power Holdings (Pty) Ltd		Total	
R000	**2017**	2016	**2017**	2016	**2017**	2016
Proportion of ownership held by non-controlling interests	**15%**	15%	**30%**	30%		
Turnover	**5 874 398**	5 522 555	**247 987**	235 650	**6 122 385**	5 758 205
Profit after tax for the year	**109 042**	105 731	**29 827**	30 755	**138 869**	136 486
Profit allocated to non-controlling interests for the year	**16 357**	15 860	**8 948**	9 226	**25 305**	25 086
Dividends paid to non-controlling interests for the year		(750)	**(8 100)**	(9 900)	**(8 100)**	(10 650)
Total comprehensive income for the year allocated to non-controlling interests	**16 031**	14 673	**8 879**	9 207	**24 910**	23 880
Accumulated equity allocated to non-controlling interests	**36 687**	20 656	**44 767**	43 988	**81 454**	64 644
Cash flow from operating activities	**619 040**	644 355	**60 201**	34 230	**679 241**	678 585
Non-current assets	**3 387 318**	3 151 775	**7 954**	9 745	**3 395 272**	3 161 520
Current assets	**2 650 583**	2 357 528	**230 420**	158 978	**2 881 003**	2 516 506
Non-current liabilities	**910 766**	863 767	**826**	940	**911 592**	864 707
Current liabilities	**4 882 552**	4 507 841	**84 830**	17 641	**4 967 382**	4 525 482

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

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for the year ended 30 November 2017

R000	2017	2016
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	**200 000**	235 000
– The Standard Bank of South Africa Limited	**15 000**	15 000
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**	460 000
	675 000	710 000
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 R210,8 million) is subject to adjustment based on earnings of the business, up to April 2019	**131 357**	155 524
Estimated amount due to the vendors of Eternity Technologies acquired in 2017. The amount includes imputed interest at 7,3% per annum. The amount finally payable (maximum R179,7 million) is subject to adjustment based on earnings of the business, up to July 2020	**129 123**	
Estimated amount due to the vendors of The Dished End Company acquired in 2017. The amount includes imputed interest at 8,5% per annum. The amount finally payable (maximum R42,9 million) is subject to adjustment based on earnings of the business, up to April 2020	**31 157**	
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 R43,8 million) is subject to adjustment based on earnings of the business, up to November 2017	**16 951**	38 025
Estimated amount due to the vendors of SS Telecoms acquired in 2017. The amount includes imputed interest at 8,5% per annum. The amount finally payable (maximum R75,8 million) is subject to adjustment based on earnings of the business, up to November 2019	**7 998**	
Estimated amount due to the vendors of Commercial ICT acquired in 2017. The amount includes imputed interest at 8,5% per annum. The amount finally payable (maximum R6,7 million) is subject to adjustment based on earnings of the business, up to November 2019	**5 819**	
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 R31,0 million) is subject to adjustment based on earnings of the business, up to May 2019	**4 644**	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 R15,9 million) is subject to adjustment based on earnings of the business, up to December 2017	**3 974**	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 R22,6 million) is subject to adjustment based on earnings of the business, up to February 2018	**963**	1 203
Amounts due to the vendors of Berntel acquired in 2015		4 306
Total interest-bearing liabilities	**331 986**	223 880
Less: Payable within 12 months	**117 413**	75 889
	214 573	147 991

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

R000	2017	2016

19. Trade and other payables

Trade payables	**643 498**	615 268
Fair value of forward exchange contracts	**5 071**	17 792
Other payables	**294 145**	264 875
	942 714	897 935

Included in other payables are payroll and other accruals.

20. Acquisition of businesses

R000	SS Telecoms	Commercial ICT	The Dished End Company	Gear Pump Distributors UK	Eternity Technologies	**Total 2017**	Total 2016
Effective date of control	1 Dec 16	1 Dec 16	1 May 17	1 Jun 17	1 Aug 17		
Fair value of assets acquired:							
Plant and equipment	1 000	158	6 550	27	6 516	**14 251**	6 971
Goodwill	21 744	6 460	51 212	71	157 838	**237 325**	241 663
Intangible assets	6 830	92	6 951		16 578	**30 451**	23 329
Bank balances (overdraft)	767	(125)	1 000	5 922	5 301	**12 865**	4 453
Inventories	6 662	79	2 029	4 617	49 109	**62 496**	78 524
Trade and other receivables	5 832	1 127	2 851	3 137	36 070	**49 017**	56 516
Trade and other payables	(6 620)	(1 069)	(1 621)	(1 503)	(67 504)	**(78 317)**	(32 354)
Taxation				(1 046)		**(1 046)**	
Deferred taxation	(2 034)	(359)	(3 445)		(10 109)	**(15 947)**	(16 630)
Net operating assets acquired	34 181	6 363	65 527	11 225	193 799	**311 095**	362 472
Bank (balances) overdraft assumed	(767)	125	(1 000)	(5 922)	(5 301)	**(12 865)**	(4 453)
Balance owed to vendors at acquisition date	(7 346)	(5 363)	(29 651)		(126 014)	**(168 374)**	(209 278)
Net cash outflow on acquisitions	26 068	1 125	34 876	5 303	62 484	**129 856**	148 741

Profit after tax since acquisition date included in the consolidated results for the year	**11 639**	29 037
Turnover since acquisition date included in the consolidated results for the year	**188 889**	408 116
Group profit after tax had the business combinations been included for the entire year	**429 910**	416 190
Group turnover had the business combinations been included for the entire year	**6 040 214**	5 686 026

Refer to pages 82 and 83 in the directors' report for further information.

21. Dividends

Dividends paid to equity holders of the parent were:		
Dividend number 60 of 355 cents per share declared on 2 February 2017	**121 246**	117 830
The record date was 3 March 2017 and the dividend was paid on 6 March 2017		
Dividend number 61 of 180 cents per share declared on 29 June 2017	**61 475**	58 060
The record date was 11 August 2017 and the dividend was paid on 14 August 2017		
Dividends paid to subsidiary company	**(13 416)**	(12 915)
	169 305	162 975

On 1 February 2018 the directors declared dividend number 62 of 380 cents per share, being the final dividend in respect of the year ended 30 November 2017. The record date will be 2 March 2018 and the dividend will be paid on 5 March 2018. This dividend has not been included as a liability in these financial statements.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS continued
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R000	2017	2016

22. Notes to the statement of cash flows

22.1 (Increase) decrease in working capital

Decrease (increase) in inventories	**32 661**	(60 912)
Amounts from cash flow hedging reserve allocated to initial value of inventories	**4 235**	(3 244)
(Increase) decrease in trade and other receivables	**(60 515)**	625
(Decrease) increase in trade and other payables	**(33 538)**	101 184
Fair value of current year cash flow hedges included in working capital	**(3 973)**	(4 235)
	(61 130)	33 418

22.2 Taxation paid

Net amounts paid in advance at beginning of the year	**2 207**	3 400
Current tax charge	**(156 165)**	(175 129)
Prior year under provision	**(606)**	(106)
Foreign tax charge	**(1 004)**	(122)
Acquired during the year	**(1 046)**	
Net amounts owed (paid in advance) at end of the year	**25 724**	(2 207)
	(130 890)	(174 164)

22.3 Payments to vendors of businesses acquired

Amounts owed at beginning of the year	**(223 880)**	(39 553)
Interest imputed on amounts owed	**(22 673)**	(13 649)
Acquisitions during the year	**(168 374)**	(209 278)
Adjustment to purchase price credited to statement of income	**2 193**	19 163
Amounts owed at end of the year	**331 986**	223 880
	(80 748)	(19 437)

22.4 Finance costs paid

Finance costs	**(103 520)**	(100 579)
Imputed on amounts due to vendors of businesses acquired	**22 673**	13 649
	(80 847)	(86 930)

22.5 Dividends paid

To equity holders of the parent	**(169 305)**	(162 975)
To non-controlling shareholders	**(8 100)**	(10 650)
	(177 405)	(173 625)

22.6 Net bank overdraft

Bank deposits and balances	**81 053**	47 203
Bank overdraft	**(266 324)**	(242 184)
	(185 271)	(194 981)

22.7 Reclassification of prior year cash flows

The settlement of share appreciation bonuses was previously disclosed as part of cash flow from operating activities. As it is considered to be more appropriate to disclose it as part of financing activities in terms of IFRS, the prior year cash flows from operating activities was increased by R4,6 million and the cash flows from financing activities was reduced by R4,6 million.

R000	2017	2016

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:

Within one year	**98 219**	90 341
Payable in second to fifth years	**176 476**	119 264
Payable thereafter	**26 208**	
	300 903	209 605

23.2 Property, plant and equipment

The group has budgeted to spend R66 million to acquire property, plant and equipment in 2018, 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.

24. Financial instruments

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

24.1 Summary of financial instruments

Financial assets by class:		
Trade receivables	**1 002 360**	902 890
Other receivables (excluding indirect taxes)	**109 812**	118 271
Bank deposits and balances	**81 053**	47 203
	1 193 225	1 068 364
Financial assets by category:		
Loans and receivables at amortised cost	**1 193 225**	1 068 364
	1 193 225	1 068 364
Financial liabilities by class:		
Amounts due to vendors of businesses acquired	**331 986**	223 880
Amounts due to bankers	**675 000**	710 000
Bank overdraft	**266 324**	242 184
Trade payables	**643 498**	615 268
Fair value of forward exchange contracts	**5 071**	17 792
Other payables (excluding payroll accruals and indirect taxes)	**152 975**	141 121
	2 074 854	1 950 245
Financial liabilities by category:		
Financial liabilities at amortised cost	**2 069 783**	1 932 453
Derivatives used for hedging at fair value	**5 071**	17 792
	2 074 854	1 950 245

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.

All other financial instruments are carried at amounts that approximate fair value. The fair values for bank deposits and balances, receivables, payables 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.

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24. Financial instruments continued

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 R25,7 million (2016: R33,6 million).

Cash flow hedges – at 30 November 2017 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	8,22	59 290	7,91	7 494
US Dollar	13,69	5 600	14,15	79 217
Pound Sterling	18,51	358	18,73	6 707
Euro	16,32	3 519	16,62	58 489
Total cost of contracts				151 907
Fair value – Rand equivalent of the above contracts at year end spot rates				147 934
Loss recognised directly in equity on import orders				3 973
Taxation				(1 112)
Attributable to non-controlling shareholders				(437)
Attributable to equity holders of the parent (note 17.6)*				2 424

* *To be allocated to initial cost of inventories 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.

24.2.2 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 %	**2017 R000**	2016 R000
Amounts due to bankers	2019	JIBAR plus premium	**675 000**	710 000
Amounts due to vendors of businesses acquired				
– MiRO	2018 – 2019	8,5	**131 357**	155 524
– Eternity Technologies	2018 – 2020	7,3	**129 123**	
– The Dished End Company	2018 – 2020	8,5	**31 157**	
– Hydraulic Engineering Repair Services	2018	7,8	**16 951**	38 025
– SS Telecoms	2018 – 2019	8,5	**7 998**	
– Commercial ICT	2018 – 2019	8,5	**5 819**	
– Brewtech	2018 – 2019	8,6	**4 644**	21 268
– Berntel		8,0		4 306
– All-Trade	2018	7,8	**3 974**	3 554
– Sanderson Special Steels	2018	8,0	**963**	1 203

A change of 1% in the interest rate charged on non-current borrowings will affect profit after tax by approximately R4,9 million (2016: R6,2 million) per year and profit attributable to equity holders of the parent by R4,1 million (2016: R5,3 million).

24. Financial instruments continued

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	2017	2016
Trade receivables	**1 002 360**	902 890
Other receivables (excluding indirect taxes)	**109 812**	118 271
Bank deposits and balances	**81 053**	47 203
	1 193 225	1 068 364

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 2017 were R724 million.

There is no restriction on borrowing powers in terms of the memorandum of incorporation and at 30 November 2017 the group's banking facilities substantially exceeded its forecast requirements for the forthcoming year.

The maturity profile of financial liabilities is as follows:

		Repayable during the year ending	
R000	**Total owing 2017**	**30 November 2018**	**30 November 2019 to 2020**
Amounts due to bankers	**675 000**		**675 000**
Amounts due to vendors of businesses acquired	**331 986**	**117 413**	**214 573**
Bank overdraft	**266 324**	**266 324**	
Trade payables	**643 498**	**643 498**	
Other payables (excluding payroll accruals and indirect taxes)	**152 975**	**152 975**	

24.5 Fair value of derivative financial instruments

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

R000	2017	2016
Cash flow hedges (note 24.2.1)	**3 973**	4 235
Fair value hedges (on contracts of R425 million at year end spot rates)	**1 098**	13 557
	5 071	17 792

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 long-term debt not exceeding 2,5 times EBITDA. In 2017 it was 1,2 times, the same as in 2016.

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 2017 it was 8,4 times, improving from the 7,3 times of 2016.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS continued

for the year ended 30 November 2017

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 R55,0 million (2016: R50,0 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. Directors' interests and remuneration

26.1 Interests of directors in the share capital of the company as at 30 November 2017

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

	Direct Share register (own name)		Indirect Held by associates	
	2017	2016	**2017**	2016
RT Vice	**4 000**	4 000		
SJ Connelly	**274 139**	274 139	**1 680**	1 680
CV Amoils	**60 934**	40 223	**7 500**	7 500
GR Dunford	**155 505**	141 559	**970 812**	970 812
	494 578	459 921	**979 992**	979 992

The shareholdings above have not changed between 30 November 2017 and the date of the notice of the annual general meeting.

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

The directors' interests in the share appreciation bonus scheme and the share matching scheme is set out in the implementation of the remuneration policy section of the remuneration report, specifically dealing with executive directors' remuneration as set out on pages 45 to 48 of the integrated report.

26.3 Directors' remuneration

The remuneration of the directors is set out in the implementation of the remuneration policy section of the remuneration report, specifically dealing with executive directors' remuneration as set our on pages 45 to 48 of the integrated report.

27. 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 118.

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	**2017**	2016
Compensation of key management personnel		
Short-term employee benefits	**33 478**	32 720
Share-based payments[1]	**6 306**	5 351
	39 784	38 071

(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 R5,7 million (2016: R2,5 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.

27. Related party transactions continued

Directors

Details of directors' remuneration and share-based payments are set out in the implementation of the remuneration policy section of the remuneration report, specifically dealing with executive directors' remuneration as set out on pages 45 to 48 of the integrated report.

Shareholdings of the directors are set out in note 26.

GR Dunford, chief executive of Hudaco, is 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 955 983 (2016: R1 809 805), Dosco Precision Hydraulics amounted to R1 494 351 (2016: R1 383 658), Gear Pump Manufacturing amounted to R1 655 145 (2016: R1 532 540) and Joseph Grieveson amounted to R2 660 162 (2016: R2 463 110). These leases expire on 31 January 2020, 30 March 2019, 30 June 2018 and 30 June 2018, respectively.

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

28. Segment information

	Group		Head office, shared services and eliminations		Consumer-related products		Engineering consumables	
R million	**2017**	2016	**2017**	2016	**2017**	2016	**2017**	2016
Statement of net income								
Turnover	**5 902**	5 534	**(10)**	(7)	**3 051**	2 802	**2 861**	2 739
– Ongoing operations	**5 204**	5 252	**(10)**	(7)	**2 434**	2 553	**2 780**	2 706
– Operations acquired after Dec 2015	**698**	282			**617**	249	**81**	33
EBITDA	**751**	705	**(22)**	(21)	**461**	435	**312**	291
Depreciation less recoupments	**47**	42	**2**		**15**	15	**30**	27
Amortisation of intangible assets	**28**	24			**18**	15	**10**	9
Operating profit	**676**	639	**(24)**	(21)	**428**	405	**272**	255
– Ongoing operations	**591**	598	**(24)**	(21)	**357**	372	**258**	247
– Operations acquired after Dec 2015	**85**	41			**71**	33	**14**	8
Fair value adjustments to amounts due to vendors	**2**	19			**(3)**	4	**5**	15
Profit before interest	**678**	658	**(24)**	(21)	**425**	409	**277**	270
Statement of financial position								
Property, plant and equipment	**270**	256			**75**	59	**195**	197
Investment in joint venture	**9**	7			**9**	7		
Goodwill	**1 480**	1 243			**840**	654	**640**	589
Intangible assets	**70**	68			**52**	47	**18**	21
Deferred taxation – net	**13**	26	**18**	39	**(5)**	(11)		(2)
Inventories	**1 538**	1 508			**726**	703	**812**	805
Trade and other receivables	**1 156**	1 046	**1**	36	**630**	527	**525**	483
Trade and other payables	**(943)**	(898)	**(11)**	(37)	**(499)**	(507)	**(433)**	(354)
Taxation – net	**(26)**	3	**120**	88	**(101)**	(54)	**(45)**	(31)
Net operating assets	**3 567**	3 259	**128**	126	**1 727**	1 425	**1 712**	1 708
Additional information								
Average net operating assets	**3 411**	3 141	**109**	72	**1 592**	1 337	**1 710**	1 732
Capital expenditure	**52**	36			**20**	17	**32**	19
Operating profit margin (%)	**11,5**	11,6			**14,0**	14,5	**9,5**	9,3
Return on average net operating assets (%)	**19,8**	20,4			**26,9**	30,3	**15,9**	14,7
Number of permanent employees	**3 639**	3 096	**24**	24	**1 443**	1 004	**2 172**	2 068

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 2017

R000	2017	2016
Assets		
Non-current assets		
Interest in subsidiaries (note 1)	**244 338**	231 364
Current assets		
Receivables	**540**	
Total assets	**244 878**	231 364
Equity and liabilities		
Shareholders' equity	**243 664**	230 143
Current liabilities		
Payables and taxation	**1 214**	1 221
Total equity and liabilities	**244 878**	231 364

STATEMENT OF COMPREHENSIVE INCOME
for the year ended 30 November 2017

R000	2017	2016
Dividends received from subsidiaries		
– Hudaco Investment Company (Pty) Ltd	**200 000**	175 000
– Hudaco Trading (Pty) Ltd		4 250
Operating costs	**(3 758)**	(3 430)
Profit after taxation	**196 242**	175 820

STATEMENT OF CHANGES IN EQUITY
for the year ended 30 November 2017

R000	Share capital	Share premium	Special reserve account	Retained income	Shareholders' equity
Note	3				
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**
Profit after taxation				**196 242**	**196 242**
Dividends to shareholders				**(169 305)**	**(169 305)**
Dividends to subsidiary				**(13 416)**	**(13 416)**
Balance at 30 November 2017	**3 415**	**51 533**	**332**	**188 384**	**243 664**

Hudaco Industries Limited

STATEMENT OF CASH FLOWS

for the year ended 30 November 2017

R000	2017	2016
Cash generated from operating activities		
Dividends received	**200 000**	179 250
Operating costs paid	**(3 758)**	(3 430)
(Increase) decrease in working capital	**(547)**	254
Cash flow from operations	**195 695**	176 074
Dividends paid	**(182 721)**	(175 890)
Net cash retained	**12 974**	184
Cash applied to investment activities		
Increase in loans to subsidiary companies	**(12 974)**	(184)
Net cash applied	**0**	0

NOTES TO THE COMPANY FINANCIAL STATEMENTS

for the year ended 30 November 2017

R000	2017	2016

1. Interest in subsidiaries

	2017	2016
Shares at cost less amounts written off	**92 275**	92 275
Loans to subsidiaries	**152 063**	139 089
	244 338	231 364

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 118.

2. Contingent liability

The company has guaranteed the senior banking facilities of Hudaco Trading (Pty) Ltd. The maximum exposure in this regard is approximately R2 billion and the exposure is R1 billion at year end.

3. Share capital

3.1 Authorised share capital

	2017	2016
40 000 000 ordinary shares of 10 cents each	**4 000**	4 000

3.2 Issued share capital

	2017	2016
34 153 531 ordinary shares	**3 415**	3 415

4. Risk management

Risk is managed under the same principles as set out in note 24 of the consolidated annual financial statements on pages 112 and 113 of this report.

PRINCIPAL SUBSIDIARIES
at 30 November 2017

	Issued share capital Rand	Interest of holding company					
		Group's effective interest		Book value of shares		Loans owing by	
		2017 %	2016 %	**2017 R000**	2016 R000	**2017 R000**	2016 R000
Hudaco Trading (Pty) Ltd	2 000	**85(1)**	85(1)	**2**	2		
Operating businesses							
Abes Technoseal							
Ambro Steel							
Astore Keymak							
Bauer Geared Motors							
Bearings International							
Belting Supply Services							
Berntel							
Bosworth							
Brewtech Engineering							
Commercial ICT							
Deltec							
Deutz Dieselpower							
Dosco Precision Hydraulics							
Elvey Security Technologies							
Ernest Lowe							
Eternity Technologies							
Filter and Hose Solutions							
Gear Pump Manufacturing							
Global Communications							
Hydraulic Engineering Repair Services							
Joseph Grieveson							
MiRO							
Partquip Group							
Pentagon							
Powermite							
Proof Engineering							
Rutherford							
Sanderson Special Steels							
Specialised Battery Systems							
SS Telecoms							
The Dished End Company							
Three-D Agencies							
Varispeed							
Hudaco Investment Company (Pty) Ltd	26 160	**100**	100	**48 158**	48 158	**152 063**	139 089
DD Power Holdings (Pty) Ltd	300 000	**70(2)**	70(2)				
DD Power (Pty) Ltd	7 450 000	**70**	70				
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	**152 063**	139 089

(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) 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 2017

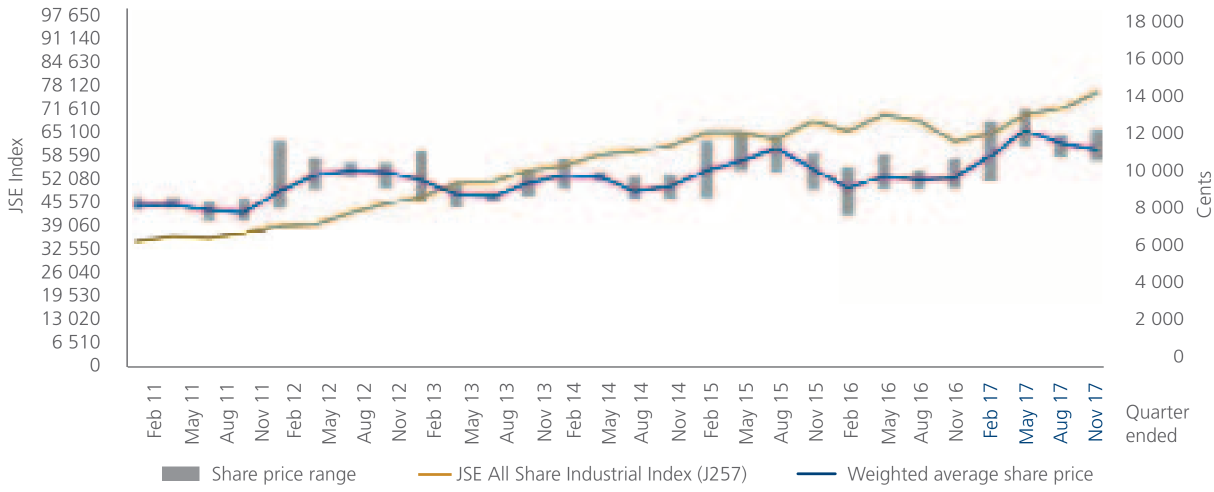
Shareholder analysis	Number of shareholders	Number of shares	% of issued shares
Portfolio size			
1 – 1 000 shares	**2 396**	895 875	2,83
1 001 – 5 000 shares	**855**	1 972 114	6,23
5 001 – 10 000 shares	**143**	1 046 260	3,31
10 001 – 100 000 shares	**181**	6 499 636	20,54
Over 100 000 shares	**53**	21 231 818	67,09
Total(1)	**3 628**	31 645 703	100,00
Category			
Banks and nominee companies	**51**	2 753 937	8,70
Financial institutions and pension funds	**244**	21 685 445	68,53
Individuals	**3 275**	6 595 610	20,84
Other corporate bodies	**58**	610 711	1,93
Total(1)	**3 628**	31 645 703	100,00
Shareholder spread			
Public	**3 609**	30 090 268	95,09
Non-public	**19**	1 555 435	4,91
Directors and associates(2)	**18**	1 551 235	4,90
Share trust	**1**	4 200	0,01
Total(1)	**3 628**	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	1 428 777	4,51
PSG Balanced Fund	1 295 259	4,09
Nedgroup Investments Value Fund	1 090 033	3,44
Old Mutual Life Assurance	1 084 173	3,42
Dunford Holdings (Pty) Ltd	970 812	3,07
Fund managers holding more than 3%		
PSG Asset Management	4 503 744	14,23
Public Investment Corporation	3 218 750	10,71
Prudential Portfolio Managers	2 360 029	7,46
Melville Douglas	1 994 799	6,30
Old Mutual Investment Group	1 868 667	5,90
36ONE Asset Management	1 208 707	3,81
Foord Asset Management	1 195 951	3,78
Sanlam Investment Management	1 011 293	3,19

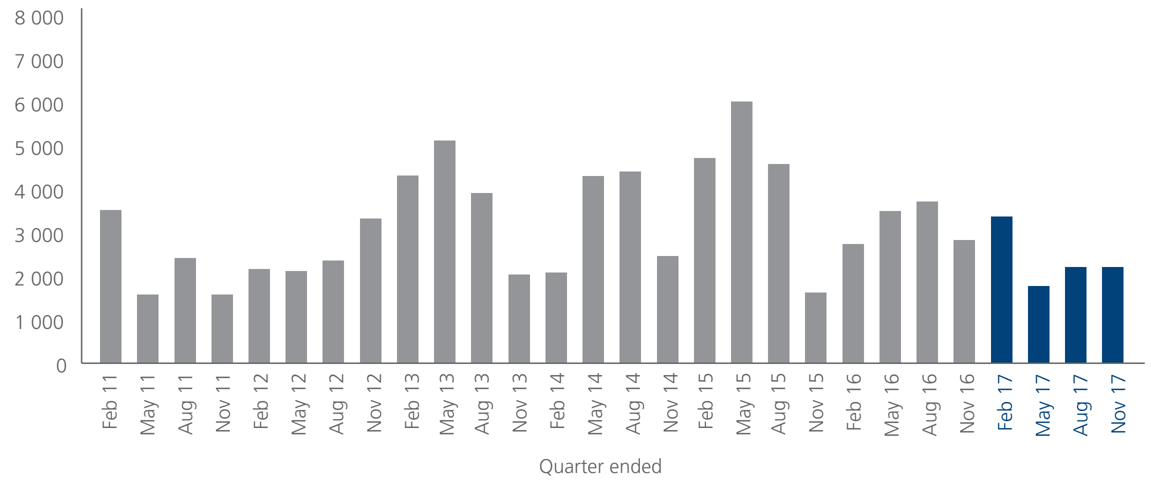
(1) Excludes 2 507 828 shares held by a subsidiary company.
(2) A list of shareholdings of senior management is available on request from the group secretary.

SHARE INFORMATION

Share price history



Volume of shares traded (000)



JSE statistics	**2017**	2016	2015	2014	2013	2012	2011
Market price (cents)	**13 600**	10 850	10 701	9 590	10 365	11 200	8 475
NAV per share (cents)	**7 252**	6 525	5 827	5 210	5 737	5 277	4 721
Number of shares in issue (000)*	**31 646**	31 646	31 646	31 646	31 646	31 646	31 646
Market capitalisation (Rm)*	**4 304**	3 434	3 386	3 035	3 280	3 544	2 682
Price:earnings ratio (times)	**11,0**	9,3	9,2	10,3	9,6	10,4	10,1
All Share Industrial Index PE ratio (J257)	**30,4**	27,0	22,6	21,6	21,0	18,7	17,4
Dividend yield (%)	**3,1**	4,8	4,9	4,8	4,5	4,2	4,3
All Share Industrial Index dividend yield (J257) (%)	**1,9**	2,5	2,3	2,2	2,2	2,4	2,6
Annual trade in Hudaco shares							
Number of transactions recorded	**29 245**	20 903	36 271	22 549	23 223	12 034	7 427
Volume of shares traded (000)	**9 714**	12 995	17 211	13 475	15 638	10 121	9 242
% of issued shares traded*	**31**	41	54	43	49	32	29
Value of shares traded (Rm)	**1 234**	1 341	2 007	1 354	1 496	1 062	757

** Excludes 2 507 823 treasury shares.*

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 33rd annual general meeting (AGM) of Hudaco Industries Limited

Notice is hereby given that the 33rd AGM of shareholders of the company for the year ended 30 November 2017 will be held at 11:00 on Thursday, 5 April 2018 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 10:30.

Important dates and times (1), (2)	2018
Record date for determining which shareholders are entitled to receive the AGM notice	Friday, 16 February
Notice posted to shareholders on or about	Friday, 23 February
Last day to trade to be eligible to participate and vote at the AGM	Monday, 26 March
Record date for attending and voting at the AGM (3)	Thursday, 29 March
AGM to be held at 11:00	Thursday, 5 April
Results of AGM to be released on SENS on	Thursday, 5 April

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, 16 February 2018, and the record date for purposes of determining which shareholders of the company are entitled to participate and vote at the AGM is Thursday, 29 March 2018. Accordingly, only shareholders who are recorded as such in the register maintained by the transfer secretaries of the company on Thursday, 29 March 2018 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 2017, distributed as required.

   Copies of the integrated report which contains the full audited consolidated annual financial statements for the year ended 30 November 2017 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 Mr SJ Connelly.

2.2 Ordinary Resolution Number 1.2: Re-election of Ms N Mandindi.

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 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.

For Ordinary Resolution Numbers 1.1 and 1.2 to be adopted, the support of more than 50% of the total number of votes exercisable by shareholders, present in person or by proxy, is required.

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.

NOTICE OF ANNUAL GENERAL MEETING continued

3. Ordinary Resolution Number 2: To elect a director appointed since the previous AGM

To elect as director Mr MR Thompson, appointed by the board during the course of the year and who is required to retire in terms of clause 21.2.6 of the company's MOI and who is eligible and has offered himself for election.

The nomination committee of the board has reviewed the composition of the board against corporate governance and transformation requirements and has recommended the election of Mr MR Thompson. It is the view of the board that the election of Mr MR Thompson 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.

A brief *curriculum vitae* of Mr MR Thompson is included on page 18 of the Hudaco integrated report.

For Ordinary Resolution Number 2 to be adopted, the support of more than 50% of the total number of votes exercisable by shareholders, present in person or by proxy, is required.

4. Ordinary Resolution Number 3: 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 2018 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), the Companies Regulations 2011 and the JSE Listings Requirements and has accordingly nominated Grant Thornton for re-appointment as auditors of the company.

For Ordinary Resolution Number 3 to be adopted, the support of more than 50% of the total number of votes exercisable by shareholders, present in person or by proxy, is required.

5. Ordinary Resolution Number 4: 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:

5.1 Ordinary Resolution Number 4.1: To elect Ms D Naidoo as member;

5.2 Ordinary Resolution Number 4.2: To elect Ms N Mandindi as member, subject to the passing of Ordinary Resolution Number 1.2;

5.3 Ordinary Resolution Number 4.3: To elect Mr MR Thompson as member, subject to the passing of Ordinary Resolution Number 2.

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.

For Ordinary Resolution Numbers 4.1, 4.2 and 4.3 to be adopted, the support of more than 50% of the total number of votes exercisable by shareholders, present in person or by proxy, is required.

6. Special Resolution Number 1: Approval of non-executive directors' remuneration

That the remuneration, exclusive of value-added tax, payable to the non-executive directors of Hudaco for their services as directors for the period 1 April 2018 until 31 March 2019, be and it is hereby approved as set out below:

	Proposed 2018		2017	
R (excluding VAT)	**Base fee**	**Penalty for non-attendance**	**Base fee**	**Penalty for non-attendance**
Board				
Chairman of the board	1 033 500*	19 100	975 000*	18 000
Board member	276 300	13 500	260 700	12 700
Lead independent director	100 000	5 000		
Audit and risk management committee				
Chairman of the committee	240 400	19 100	226 800	18 000
Committee member	132 500	13 500	125 000	12 700
Remuneration committee				
Chairman of the committee	168 500	19 100	159 000	18 000
Committee member	42 700	6 700	40 200	6 300
Nomination committee				
Chairman of the committee	*		*	
Committee member	42 700	6 700	40 280	6 300
Social and ethics committee				
Chairman of the committee	143 750	19 100	135 600	18 000
Member of the committee	42 700	6 700	40 200	6 300

** 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 – R28 000 (2017: R26 500), member – R20 000 (2017: R19 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 2018 until 31 March 2019. The fees payable to the non-executive directors are detailed above. Further details on the basis of calculation of remuneration are included in the implementation of the remuneration policy section of the remuneration report, specifically dealing with the non-executive directors' remuneration on page 53.

For Special Resolution Number 1 to be adopted, the support of at least 75% of the total number of votes exercisable by shareholders, present in person or by proxy, is required.

7. Non-binding Resolution Number 1: Approval of Hudaco's remuneration policy

That shareholders endorse, through a non-binding advisory vote to ascertain the shareholders' view, Hudaco's remuneration policy. Hudaco's remuneration policy is set out in the remuneration report on pages 42 to 45.

King IV, as well as the amended JSE Listings Requirements require the board (with the assistance of the remuneration committee) to present Hudaco's remuneration policy to the shareholders. This is an ordinary resolution which requires the support of 50% of the total number of votes exercisable by shareholders, present in person or by proxy. This ordinary resolution is of an advisory nature and failure to pass this resolution will therefore not have any legal consequences for existing arrangements. However, should the resolution be voted against by 25% or more of the voting rights exercised, the board undertakes to engage with those identifiable shareholders opposed to the remuneration policy in order to ascertain the reasons therefore, and to address appropriately legitimate objections and concerns.

NOTICE OF ANNUAL GENERAL MEETING continued

8. Non-binding Resolution Number 2: Approval of Hudaco's remuneration implementation report

That shareholders endorse, through a non-binding advisory vote to ascertain the shareholders' view, Hudaco's remuneration implementation report. Hudaco's remuneration implementation report is set out in the remuneration report on pages 45 to 53.

King IV as well as the amended JSE Listings Requirements require the board (with the assistance of the remuneration committee) to present Hudaco's remuneration implementation report to the shareholders. This is an ordinary resolution which requires the support of 50% of the total number of votes exercisable by shareholders, present in person or by proxy. This ordinary resolution is of an advisory nature and failure to pass this resolution will therefore not have any legal consequences for existing arrangements. However, should the resolution be voted against by 25% or more of the voting rights exercised, the board undertakes to engage with those indentifiable shareholders opposed to the remuneration implementation report in order to ascertain the reasons therefore, and to address appropriately legitimate objections and concerns.

9. Special Resolution Number 2: Authorising the provision of financial assistance to subsidiaries

That the board of the company be and it is 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 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 cause 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.

For Special Resolution Number 2 to be adopted, the support of at least 75% of the total number of votes exercisable by shareholders, present in person or by proxy, is required.

10. 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 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 119.
- share capital of the company – note 17 on page 104.

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.

For Special Resolution Number 3 to be adopted, the support of at least 75% of the total number of votes exercisable by shareholders, present in person or by proxy, is required.

11. Ordinary Resolution Number 5 : 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 5, 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 5 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 5.

For Ordinary Resolution Number 5 to be adopted, the support of more than 50% of the total number of votes exercisable by shareholders, present in person or by proxy, is required.

12. Ordinary Resolution Number 6 – 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.

For Ordinary Resolution Number 6 to be adopted, the support of more than 50% of the total number of votes exercisable by shareholders, present in person or by proxy, is required.

Quorum

A quorum for the purpose of considering the resolutions above consists of three shareholders of the company, personally present or represented by proxy and entitled to vote at the AGM. In addition, a quorum will comprise 25% of all voting rights entitled to be exercised by shareholders in respect of the resolutions above.

The date on which shareholders must be recorded as such in the register maintained by the transfer secretaries, Computershare Investor Services (Pty) Ltd to be entitled to attend, participate in and vote at the AGM is Thursday, 29 March 2018.

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.

A form of proxy is attached but may also be obtained on request from the company's registered office. Completed forms of proxy should be returned to the transfer secretaries, Computershare Investor Services (Pty) Ltd, Rosebank Towers, 15 Biermann Avenue, Rosebank, 2196 (PO Box 61051, Marshalltown, 2107), so as to reach them by no later than 11:00 on Tuesday, 3 April 2018. It may also be emailed to them at proxy@computershare.co.za. Any forms of proxy not submitted in this time may nevertheless be submitted to the transfer secretaries before the meeting or handed to the chairman of the AGM prior to the shareholder exercising any rights of a shareholder at the AGM.

By order of the board

R van Zyl
Group secretary

1 February 2018

Transfer secretaries
Computershare Investor Services (Pty) Ltd
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 33rd annual general meeting – for use by certificated Hudaco ordinary shareholders and dematerialised shareholders with own name registration only (see note 1)

For use by Hudaco shareholders at the annual general meeting of Hudaco to be held on Thursday, 5 April 2018 at Hudaco's corporate offices situated at Building 9, Greenstone Hill Office Park, Emerald Boulevard, Greenstone Hill, Edenvale, Gauteng at 11:00 (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 SJ Connelly			
1.2 N Mandindi			
Ordinary Resolution Number 2: To elect MR Thompson appointed since previous AGM			
Ordinary Resolution Number 3: To approve the re-appointment of external auditors			
Ordinary Resolution Number 4: Appointment of the members of the audit and risk management committee:			
4.1 D Naidoo			
4.2 N Mandindi			
4.3 MR Thompson			
Special Resolution Number 1: Approval of non-executive directors' remuneration			
Non-binding Resolution Number 1: Approval of Hudaco's remuneration policy			
Non-binding Resolution Number 2: Approval of Hudaco's remuneration implementation report			
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			
Ordinary Resolution Number 5: 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 6: Signature of documents			

Signed at on 2018

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. For administrative purposes only, forms of proxy should be lodged with the transfer secretaries, Computershare Investor Services (Pty) Ltd, Rosebank Towers, 15 Biermann Avenue, Rosebank, 2196 or be posted to them at PO Box 61051, Marshalltown, 2107, or emailed to them at proxy@computershare.co.za, by Tuesday, 3 April 2018 at 11:00 or thereafter to the company by hand at Hudaco's offices situated at Building 9, Greenstone Hill Office Park, Emerald Boulevard, Greenstone Hill, Edenvale, Gauteng. Any forms of proxy not submitted by this time may nevertheless be submitted to the transfer secretaries before the meeting or handed to the chairman of the AGM prior to the shareholder exercising any rights of a shareholder at the AGM.

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 (Pty) Ltd
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 X5, Northlands, 2116)

Bankers

Absa Bank Ltd
FirstRand Bank Ltd
Nedbank Ltd
The Standard Bank of South Africa Ltd

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	5 April 2018
Reports and financial statements	
Preliminary report and final dividend announcement	2 February 2018
Abridged financial statements and notice of annual general meeting (mailed to shareholders)	23 February 2018
Interim report and interim dividend announcement	29 June 2018
Dividend payment details	
Payment of final dividend	5 March 2018
Payment of interim dividend	third week in August 2018

GROUP DIRECTORY

DIVISION	BUSINESS NAME	PRINCIPAL ACTIVITIES	ADDRESS
CONSUMER-RELATED PRODUCTS			
Power tools	Rutherford	Distributor of Makita power tools, Mercury marine engines, survey instrumentation, rivets and fasteners	Unit 3A & B City Deep Industrial Park 36 Fortune Street City Deep
Security equipment	Elvey Security Technologies	Distributor of electronic security equipment, including intruder detection, access control, CCTV, fire detection and electric fencing, 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
	Commercial ICT	Distributor of Permaconn mobile radio communication equipment and systems as well as hosting and support of core IT infrastructure and communication networks	27 Greenstone Place Greenstone Hill Edenvale
Communication equipment	Global Communications	Distributor of professional mobile radio communication equipment and integrator of radio systems	Highway Business Park Park Street Rooihuiskraal Centurion
	MiRO	Distributor of wireless networking, VoIP and video products and provider 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, ignition leads and rotary oil and hydraulic seals	10 Wankel Street Jet Park
	Partquip	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
	Eternity Technologies	Supplier of batteries, high frequency chargers and related battery equipment to the traction battery market. It also designs, builds and manages battery bays for warehouses and distribution centres	192 Peenz Street Corner Pretoria Road Putfontein Benoni
	Specialised Battery Systems	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, DEUTZ spare parts and the provider of service support	5 Tunney Road Elandsfontein
Power transmission	Ambro Steel	Distributor of solid, round, square, hexagonal and hollow bar engineering steels	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	Distributor of pneumatic and process components	Unit D2 Strijdom Commercial Park Tungsten Road Randburg
	Bosworth	Manufacturer of conveyor pulleys, steel fabrication, plate rollings and distributor of sheet rubber	Corner Vereeniging and Juyn Roads Alrode

CONTACT		EXECUTIVES			
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Tel Fax Email	011 425 3447 011 425 4433 sheldon@special-battery.co.za	Sheldon Orren Natasha Jasmin	Managing director Financial manager	Bradley Orren	Commercial director
Tel Fax Email	011 899 0000 086 502 9983 info@bearings.co.za	Burtie Roberts Hennie van Vuuren Shenton Botes	Chief executive General manager General manager	Widor Grobbelaar Nonkululeko Mbatha Gary Muller	Financial director Financial manager General manager
Tel Fax Email	011 923 0600 011 923 0611 info@deutz.co.za	Maurice Pringle Rowan Michelson	Managing director Marketing director	Avinash Ramnarain Steven Moss	Financial director Sales director
Tel Fax Email	011 824 4242 011 824 4864 david@ambro.co.za	Lynette Anderson	Chief executive	David da Silva	Financial director
Tel Fax Email	011 892 1714 011 892 2781 info@astorekeymak.co.za	Pranesh Maniraj Andrew Smith	Managing director Financial director	Malindi Nkambule	Business development director
Tel Fax Email	011 828 9715 011 822 4135 home@gbauer.co.za	Deon Krieger	Managing director	Melissa Swart	Financial manager
Tel Fax Email	011 610 5600 011 610 5700 info@belting.co.za	Piet Swanepoel Mark Knight Tom Harrison	Managing director Financial director HR director	Stephan Boshoff Tanja Henderson Mark Vorster	Technical director Procurement director Sales director
Tel Fax Email	011 762 1840 011 762 2185 info@berntel.co.za	Neil Champion	General manager		
Tel Fax Email	011 864 1643 011 908 5728 pulleys@bosworth.co.za	Gary Howell	Managing director	Russell MacGregor	Financial manager

GROUP DIRECTORY continued

DIVISION	BUSINESS NAME	PRINCIPAL ACTIVITIES	ADDRESS
ENGINEERING CONSUMABLES continued			
	Brewtech Engineering	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	Supplier and repairer 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 and supplier of water valves and sewage processing systems.	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	Manufacturer and assembler of cast iron 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 Industrial East 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 of mining connectors and lighting systems	368 Sifon Street Robertville Roodepoort
	Sanderson Special Steels	Distributor of special steels and provider of heat treatment to the tool making and general engineering industries	18 Junction Street Parow Industria Cape Town
	The Dished End Company	Manufacturer of dished and flanged ends, pressing & flanging of small conical sections, push thru's and weld caps	30 North Reef Road Elandsfontein Germiston
	Three-D Agencies	Distributor of electrical cable accessories and electrical instruments	Unit B1, Route 24 50 Herman Street Meadowdale
	Varispeed	Distributor and repairer of commercial and industrial automation and electronic motor control equipment	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

CONTACT		EXECUTIVES			
Tel Fax Email	011 708 0408 011 708 0408 kerri@brewtech.co.za	Rob Harrison Martin de Oliveira	Managing director Financial manager	Kenny Cook	Director
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Tel Fax Email	011 898 6600 011 918 3974 corporate@elco.co.za	Mark Tarboton Marie Kirsten	Chief executive Operations director	Eliah Mutaviri	Financial manager
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Tel Fax Email	021 531 9330 021 531 7096 sales@gearpumps.co.za	Valdor Dudley	Managing director	Nicole Langeveld	Financial manager
Tel Fax Email	011 825 3690 011 825 6152 sales@hers.co.za	Nic Pitsiladis	General manager	Jose de Freitas	Financial manager
Tel Fax Email	031 507 3640 031 500 2587 sales@josgrieveson.co.za	Thomas Dunford Terrence Woolley	Chief executive Managing director	Stephen Smith	Financial manager
Tel Fax Email	011 271 0000 011 271 0265 info@powermite.co.za	Mike Allnutt Rolf Lung Annelie du Toit	Chief executive Managing director Financial manager	Waldo van der Merwe Andrew Mowat	Financial director Manufacturing director
Tel Fax Email	011 824 1146 011 824 1237 sales@proofholdings.co.za	Donovan Marks	Managing director	Wendy Turner	Financial manager
Tel Fax Email	021 951 5311 021 951 5316 info@sanderson.co.za	Tim Groenewald	Managing director		
Tel Fax Email	011 822 4550 011 822 1414 noel@tdec.co.za	Noel Saunders Theo Simigiannis	Chief executive Sales executive	Jennifer Graham	Financial manager
Tel Fax Email	011 392 3804 011 392 3812 sales@three-d.co.za	Ian Downard Mark Jenkins	Managing director Sales director	Vanessa Naidoo	Financial manager
Tel Fax Email	011 312 5252 011 312 5262 drives@varispeed.co.za	Ralph Real	Managing director	Erika van de Velde	Financial director
Tel Fax Email Website	011 657 5000 086 682 6779 info@hudaco.co.za www.hudaco.co.za	Graham Dunford Clifford Amoils Reana van Zyl Jonny Masinga	Group chief executive Group financial director Group secretary Transformation and human resources executive	Gary Walters Cassie Lamprecht Rika Wessels-Bouwer Tariro Mutizwa Nivashree Moodley	Acquisitions manager Group accountant Group treasurer Head of risk and internal audit Group SHEQ manager

Hudaco

SUMMARISED REPORT

FOR THE YEAR ENDED 30 NOVEMBER 2017

PROFILE

Hudaco Industries is a South African group specialising in the importation and distribution of high-quality branded automotive, industrial and electronic 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.

CONTENTS

- **Turnover up 7% to R5,9 billion**
- **Operating profit up 6% to R676 million**
- **Comparable earnings per share up 7% to 1 251 cents**
- **Annual dividend up 7% to 560 cents per share**
- **Return on equity 19%**
- **Net cash generated from operations R711 million**

Hudaco Industries is a South African group specialising in the importation and distribution of high-quality branded automotive, industrial and electronic consumable products, mainly in the southern African region. Value added includes product specification, technical advice, application and installation training and troubleshooting, combined with availability at a fair price.

2017 Overview

Hudaco is an agency distribution business, the financial performance of which is heavily dependent on South Africa's GDP growth rate and the Rand exchange rate. In the 2017 financial year the resilience of our strategy for tough market conditions was proven yet again. We had to cope with a South African economy in recession coupled with an extremely volatile Rand exchange rate resulting in economic conditions that were challenging to say the least. The relatively strong Rand between October 2016 and March 2017 placed our businesses under pressure to reduce prices. Thereafter we had to contend with a disastrous cabinet reshuffle in which the highly respected finance minister was removed and the release of an unworkable new mining charter. The ensuing inevitable ratings downgrades caused the Rand to weaken substantially, which relieved the downward pressure on pricing but, coupled with regular negative news throughout the year, including the revelations around State capture, increasingly ineffective government, corruption and high risk populist rhetoric, it sapped any remaining business confidence from the economy and business suffered. The largest impact on Hudaco of the negative sentiment was felt in those businesses heavily reliant on projects because so many customers either cancelled planned projects or put them on hold until such time as the turmoil abated.

Against this negative backdrop we are pleased with the results achieved. Annual sales were up 7% to R5,9 billion whilst operating profit rose 6% to R676 million. Comparable earnings per share were up 7% to 1 251 cents while headline earnings per share rose only 3% to 1 256 cents because of a positive fair value adjustment on the vendor liability in the previous year. The return on equity was a very respectable 19%, well above our cost of capital.

Ongoing operations' operating profit was down 1% with both segments having to grind it out. Their results give a good indication of how difficult trading conditions were. Ongoing operations in the consumer-related products segment was down 4% with the bulk of this decline coming from the projects side of both the communications and security businesses. Encouragingly, engineering consumables' operating profit from ongoing operations was up 4,5% even with the mining and manufacturing sectors firmly in recession for part of the year. It is only through the deployment of cash generated by the existing businesses in the acquisition of successful new businesses with better growth potential that we were able to increase profits.

The final dividend has been increased by 25 cents giving a total dividend for 2017 of 560 cents, up almost 7% year on year. Comparable earnings cover the full dividend 2,23 times, which falls within our long-term dividend policy range of paying between 40% and 50% of comparable earnings.

Financial position

The financial position remains healthy with consistently strong cash generation. The group had R860 million in net bank borrowings at year end, representing gearing of 36%, down from R905 million in 2016, notwithstanding R210 million spent on acquisitions. More importantly, interest payments (excluding imputed interest) were covered eight times by operating profits against our internal benchmark of at least five times. We have significant additional bank borrowing facilities available so there is still capacity for acquisitions and we continue to look for businesses in growth areas to further diversify and strengthen our portfolio.

Inventories have been well managed considering the volatility of the Rand against our basket of currencies. At R1 538 million, they are down 2%, excluding take-on inventory of acquisitions. The return on net operating assets including goodwill (RONA) in 2017 is 19,8%, compared with 20,4% last year, still well above our cost of capital, which is approximately 15%.

Consumer-related products

The consumer-related products segment comprises 11 businesses. In 2017, it made up 52% of Hudaco's sales and 61% of operating profit.

The demand for automotive spares and accessories in the year from Partquip and Abes Technoseal was strong, which was to be expected. As new car sales slumped, repairs took preference over replacement and consequently both these businesses had a good year. Rutherford, the second largest business in this segment which distributes Makita power tools and garden equipment had an excellent year, as all the authority letters for new products were issued by the National Regulator for Compulsory Specifications. MiRO, a distributor of wireless connectivity products in its second year with Hudaco, achieved strong growth as it continued to add to its impressive basket of wireless technology products. The Elvey Security Technologies group had a difficult year with both sales and profit well down, particularly in Pentagon, the high end project side of the business. Our communications business struggled again for the second year with no significant projects awarded. We will right size this business this year for current turnover levels.

Rutherford had recently moved to a larger, more effective distribution centre at City Deep and we look forward to the benefits.

The segment increased sales by 9% to R3 billion and operating profit by 6% to R428 million. Operating profit margin was 14,0%.

Engineering consumables

The 21 businesses that constitute engineering consumables made up the other 48% of sales and 39% of operating profit.

The majority of businesses in this segment distribute mature industrial products to mature economic segments (mainly mining and manufacturing). These market sectors have been in decline for the last approximately ten years partly due to natural boom and bust cyclicality of resources but also recently due to new regulations scaring off investment. Hudaco businesses in this segment are sized correctly for current market conditions and, whilst profits are not growing, returns are good and they generate the cash we use to diversify and expand our portfolio of businesses.

We are happy to report that two of the three businesses in this segment which suffered significant declines in sales and operating profit in 2016 delivered significantly improved performances this financial year. Our filter business, FHS, has benefitted from an increase in activity, mainly in open-cast mining but also in the construction sector. In the gear pump business, GPM, sales have picked up locally and from the USA and UK. Sales in our diesel engine business, Deutz Dieselpower, normalised albeit at a lower level than in the load shedding era. Encouragingly, late in the year we saw an increase in activity in the mining side of this business, which bodes well for 2018.

The segment increased sales by 4,5% to R2,9 billion whilst operating profit increased 7% to R272 million. Operating profit margin increased to a very respectable 9,5%.

Prospects

Prospects for Hudaco in 2018 will depend on how the economy performs and that in turn depends largely on government policy and its implementation. The year has started off in a much more positive vein with consumer and business confidence increasing after the election of Cyril Ramaphosa as president of the ANC. There is a great deal of optimism that he will deliver good governance, eradicate much of the corruption, put in place policies that support economic growth and assign responsibility to competent people. Withdrawal of the controversial Mining Charter would be a case in point. If that perception becomes a reality then the optimism is likely to translate into investment in those sectors of the economy that are traditional Hudaco markets. That will enable those of our businesses that have been in austerity mode for the past few years to thrive once again. Many of our businesses are well placed to benefit immediately from such a scenario, while others will need to wait for the positive cycle to mature first. If industry is active, we will supply the replacement parts it requires. We also believe that these positive developments, if they eventuate, will be enough to counter the pressure on pricing resulting from a strong Rand. On the other hand, if the government just delivers more of the same, we will again have to fall back on strategic acquisitions to deliver growth. We are optimistic.

Lawsuit against Bravura and certain associates

The legal case against Bravura, Cadiz and certain of their associates for up to R490 million continues slowly. We are preparing for court, although a date for the matter to be heard has not yet been set. 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.

Declaration of final dividend no 62

Final dividend number 62 of 380 cents per share (2016: 355 cents per share) is declared payable on Monday, 5 March 2018 to ordinary shareholders recorded in the register at the close of business on Friday, 2 March 2018.

The timetable for the payment of the dividend is as follows:

Last day to trade *cum* dividend	Tuesday, 27 February 2018
Trading *ex* dividend commences	Wednesday, 28 February 2018
Record date	Friday, 2 March 2018
Payment date	Monday, 5 March 2018

Share certificates may not be dematerialised or rematerialised between Wednesday, 28 February 2018 and Friday, 2 March 2018, both days inclusive. The certificated register will be closed for this period.

In terms of the Listings Requirements of the JSE Limited regarding the Dividends Tax the following additional information is disclosed:

- The dividend has been declared from income reserves;
- The dividend withholding tax rate is 20%;
- The net local dividend amount is 304 cents per share for shareholders liable to pay the Dividend Tax and 380 cents per share for shareholders exempt from the Dividend Tax;
- Hudaco Industries Limited has 34 153 531 shares in issue (which includes 2 507 828 treasury shares); and
- Hudaco Industries Limited's income tax reference number is 9400/159/71/2.

Directorate

We thank Stuart Morris who retired from the board on 30 June 2017 for the significant contribution that he made to the group over the years and wish him well in his retirement. We welcome Mark Thompson as a member of the board, the nomination committee and the audit and risk management committee and as chairman of the remuneration committee.

Royden Vice, who has been an independent non-executive director since June 2007 and has served as chairman of the board since March 2008, has indicated that he will retire from the board after the annual general meeting in April 2018. He has been a great asset to the group and his contribution will be missed both personally and professionally. We are pleased to advise that Stephen Connelly, a non-executive director and former chief executive of Hudaco who knows the group intimately, will assume the chairmanship when Royden steps down. He will also chair the nomination committee. Daisy Naidoo will assume the role of lead independent non-executive director and will join the nomination committee. Nyami Mandindi will join the remuneration committee. All these appointments will take effect immediately after the annual general meeting.

Annual general meeting

The company's 33rd annual general meeting will be held at Building 9, Greenstone Hill Office Park, Emerald Boulevard, Greenstone Hill, Edenvale at 11:00 on Thursday 5 April 2018. The notice and proxy form for the company's annual general meeting will be posted to the shareholders during the last week of February 2018 and is included in this summarised report. The integrated report will be published on Hudaco's website during the first week of March 2018.

Approval of financial statements

The financial statements have been approved by the board and abridged for purposes of this report. Grant Thornton has signed an unqualified audit opinion on the annual financial statements. Both the financial statements and the auditor's report are available for inspection at the company's registered office.

This abridged report is extracted from audited information, but is not itself audited.

The auditor's report does not necessarily cover all of the information contained in this announcement. Shareholders are therefore advised that, in order to obtain a full understanding of the nature of the auditor's work they should obtain a copy of the report together with the accompanying financial information.

For and on behalf of the board

RT Vice
Independent non-executive chairman

GR Dunford
Chief executive

1 February 2018

Nedbank Corporate and Investment Banking
Sponsor

These results are available on the internet: **www.hudaco.co.za**

GROUP STATEMENT OF FINANCIAL POSITION

R million	30 Nov 2017	30 Nov 2016
ASSETS		
Non-current assets	**1 843**	1 611
Property, plant and equipment	**270**	256
Investment in joint venture	**9**	7
Goodwill	**1 480**	1 243
Intangible assets	**70**	68
Deferred taxation	**14**	37
Current assets	**2 777**	2 619
Inventories	**1 538**	1 508
Trade and other receivables	**1 156**	1 046
Taxation	**2**	18
Bank deposits and balances	**81**	47
TOTAL ASSETS	**4 620**	4 230
EQUITY AND LIABILITIES		
Equity	**2 376**	2 130
Equity holders of the parent	**2 295**	2 065
Non-controlling interest	**81**	65
Non-current liabilities	**891**	869
Amounts due to bankers	**675**	710
Amounts due to vendors of businesses acquired	**215**	148
Deferred taxation	**1**	11
Current liabilities	**1 353**	1 231
Trade and other payables	**943**	898
Bank overdraft	**266**	242
Amounts due to vendors of businesses acquired	**116**	76
Taxation	**28**	15
TOTAL EQUITY AND LIABILITIES	**4 620**	4 230

GROUP STATEMENT OF COMPREHENSIVE INCOME

R million	30 Nov 2017	% change	30 Nov 2016
Turnover	**5 902**	6,6	5 534
– Ongoing operations	**5 204**		5 252
– Operations acquired after December 2015	**698**		282
Cost of sales	**3 704**		3 536
Gross profit	**2 198**		1 998
Operating expenses	**1 522**		1 359
Operating profit	**676**	5,7	639
– Ongoing operations	**591**	(1,2)	598
– Operations acquired after December 2015	**85**		41
Adjustment to fair value of amounts due to vendors of businesses acquired	**2**		19
Profit before interest	**678**	3,0	658
Finance costs	**103**		100
Profit before taxation	**575**	3,0	558
Taxation	**156**		148
Profit after taxation	**419**	2,0	410
Income from joint venture	**3**		3
Profit for the year	**422**	2,2	413
Other comprehensive loss	**(2)**		(8)
Movement on fair value of cash flow hedges	**2**		(7)
Exchange loss on translation of foreign operations	**(4)**		(1)
Total comprehensive income for the year	**420**	3,6	405
Profit attributable to:			
– Equity holders of the parent	**397**	2,3	388
– Non-controlling shareholders	**25**		25
	422	2,2	413
Total comprehensive income attributable to:			
– Equity holders of the parent	**396**	3,6	381
– Non-controlling shareholders	**24**		24
	420	3,6	405

GROUP STATEMENT OF COMPREHENSIVE INCOME (continued)

R million	30 Nov 2017	% change	30 Nov 2016
Earnings per share (cents)			
– Basic	**1 254**	2,3	1 226
– Headline	**1 256**	2,8	1 222
– Comparable	**1 251**	6,8	1 171
Diluted earnings per share (cents)			
– Basic	**1 241**	1,6	1 222
– Headline	**1 243**	2,0	1 219
– Comparable	**1 237**	5,9	1 168
Calculation of headline earnings			
Profit attributable to equity holders of the parent	**397**	2,3	388
Adjusted for:			
Loss (profit) on disposal of plant and equipment	**1**		(1)
Headline earnings	**398**	2,8	387
Calculation of comparable earnings			
Headline earnings	**398**	2,8	387
Adjusted for:			
Adjustment to fair value of amounts due to vendors of businesses acquired	**(2)**		(19)
Non-controlling interest			2
Comparable earnings	**396**		370
Dividends			
– Per share (cents)	**560**		525
– Amount (Rm)	**177**		166
Shares in issue (000)	**31 646**		31 646
– Total (000)	**34 154**		34 154
– Held by subsidiary (000)	**(2 508)**		(2 508)
Weighted average shares in issue			
– Total (000)	**31 646**		31 646
– Diluted (000)	**31 981**		31 732

GROUP STATEMENT OF CASH FLOWS

R million	30 Nov 2017	30 Nov 2016
Cash generated from trading	**772**	712
(Increase) decrease in working capital	**(61)**	34
Cash generated from operations	**711**	746
Taxation paid	**(131)**	(174)
Net cash from operating activities	**580**	572
Net investment in new operations	**(210)**	(165)
Net investment in property, plant and equipment	**(47)**	(30)
Net cash from investing activities	**(257)**	(195)
Decrease in non-current amounts due to bankers	**(35)**	(90)
Share-based payments	**(16)**	(5)
Finance costs paid	**(81)**	(87)
Dividends paid	**(177)**	(173)
Net cash from financing activities	**(309)**	(355)
Decrease in net bank overdraft	**14**	22
Foreign exchange translation loss	**(4)**	(1)
Net bank overdraft at beginning of the year	**(195)**	(216)
Net bank overdraft at end of the year	**(185)**	(195)

GROUP STATEMENT OF CHANGES IN EQUITY

R million	Share capital and premium	Non-distributable reserves	Retained income	Equity holders of the parent	Non-controlling interest	Equity
Balance at 1 December 2015	55	75	1 733	1 863	51	1 914
Comprehensive income for the year		(7)	388	381	24	405
Movement in equity compensation reserve		(4)	7	3		3
Dividends			(163)	(163)	(10)	(173)
Balance at 30 November 2016	55	64	1 965	2 084	65	2 149
Less: Shares held by subsidiary company			(19)	(19)		(19)
Net balance at 30 November 2016	55	64	1 946	2 065	65	2 130
Balance at 1 December 2016	**55**	**64**	**1 965**	**2 084**	**65**	**2 149**
Comprehensive income for the year		**(2)**	**398**	**396**	**24**	**420**
Movement in equity compensation reserve		**16**	**(13)**	**3**		**3**
Dividends			**(169)**	**(169)**	**(8)**	**(177)**
Balance at 30 November 2017	**55**	**78**	**2 181**	**2 314**	**81**	**2 395**
Less: Shares held by subsidiary company			**(19)**	**(19)**		**(19)**
Net balance at 30 November 2017	**55**	**78**	**2 162**	**2 295**	**81**	**2 376**

SUPPLEMENTARY INFORMATION

The consolidated financial statements have been prepared in accordance with IAS 34: Interim Financial Reporting, International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB), SAICA Financial Reporting Guides as issued by the Accounting Practices Committee, the requirements of the South African Companies Act and the JSE Listings Requirements. Except for the reclassification of the settlement of share-based payments from cash flows from operating activities to cash flows from financing activities, the same accounting policies, presentation and measurement principles have been followed in the preparation of this abridged report as were applied in the preparation of the group's annual financial statements for the year ended 30 November 2016. These results have been compiled under the supervision of the financial director, CV Amoils, CA (SA). The directors of Hudaco take full responsibility for the preparation of the abridged report and ensuring that the financial information has been correctly extracted from the underlying financial statements.

	30 Nov 2017	30 Nov 2016
Average net operating assets (NOA) (Rm)	**3 411**	3 141
Operating profit margin (%)	**11,5**	11,6
Average NOA turn (times)	**1,7**	1,8
Return on average NOA (%)	**19,8**	20,4
Average net tangible operating assets (NTOA) (Rm)	**1 970**	1 910
PBITA margin (%)	**11,9**	12,0
Average NTOA turn (times)	**3,0**	2,9
Return on average NTOA (%)	**35,7**	34,7
Net asset value per share (cents)	**7 252**	6 525
Return on average equity (%)	**18,7**	20,5
Operating profit has been determined after taking into account the following charges (Rm)		
– Depreciation	**46**	44
– Amortisation	**28**	24
Capital expenditure (Rm)		
– Incurred during the period	**52**	36
– Authorised but not yet contracted for	**66**	60
Commitments		
– Operating lease commitments on properties (Rm)	**301**	210

Acquisition of businesses

On 1 December 2016 the group acquired 100% of the businesses of SS Telecoms and Commercial ICT, on 1 May 2017 100% of the business of The Dished End Company and on 1 August 2017 100% of the business of Eternity Technologies, each for a consideration based on future profits and on 1 June 2017 100% of the issued share capital of Gear Pump Distributors UK. The total consideration is subject to a combined maximum of R448 million.

Plant and equipment of R14 million, inventories of R62 million, trade and other receivables of R49 million, trade and other payables of R78 million, cash of R13 million, taxation of R17 million, intangible assets of R31 million and goodwill of R237 million were recognised at dates of acquisition. These values approximate the fair values as determined under IFRS 3.

Had these acquisitions been made at the beginning of the year, additional turnover of R139 million and profit after interest and tax of R11 million would have been included in the group results and the turnover and profit after interest and tax for the group would have been R6 040 million and R430 million, respectively.

SEGMENT INFORMATION

R million	Turnover 30 Nov 2017	% change	30 Nov 2016
Consumer-related products	**3 051**	8,9	2 802
– Ongoing operations	**2 434**	(4,6)	2 553
– Operations acquired after December 2015	**617**		249
Engineering consumables	**2 861**	4,5	2 739
– Ongoing operations	**2 780**	2,7	2 706
– Operations acquired after December 2015	**81**		33
Total operating segments	**5 912**	6,7	5 541
Head office, shared services and eliminations	**(10)**		(7)
Total group	**5 902**	6,6	5 534

R million	Operating profit 30 Nov 2017	% change	30 Nov 2016
Consumer-related products	**428**	5,7	405
– Ongoing operations	**357**	(4,0)	372
– Operations acquired after December 2015	**71**		33
Engineering consumables	**272**	6,8	255
– Ongoing operations	**258**	4,5	247
– Operations acquired after December 2015	**14**		8
Total operating segments	**700**	6,1	660
Head office, shared services and eliminations	**(24)**		(21)
Total group	**676**	5,7	639

R million	Average net operating assets 30 Nov 2017	% change	30 Nov 2016
Consumer-related products	**1 592**	19	1 337
– Ongoing operations	**1 469**	24	1 185
– Operations acquired after December 2015	**123**		152
Engineering consumables	**1 710**	(1,3)	1 732
– Ongoing operations	**1 676**	(1,0)	1 693
– Operations acquired after December 2015	**34**		39
Total operating segments	**3 302**	7,6	3 069
Head office, shared services and eliminations	**109**		72
Total group	**3 411**	8,6	3 141

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
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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 (Pty) Ltd
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 X5, Northlands, 2116)

Bankers

Absa Bank Ltd
FirstRand Bank Ltd
Nedbank Ltd
The Standard Bank of South Africa Ltd

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	5 April 2018
Reports and financial statements	
Preliminary report and final dividend announcement	2 February 2018
Abridged financial statements and notice of annual general meeting (mailed to shareholders)	23 February 2018
Interim report and interim dividend announcement	29 June 2018
Dividend payment details	
Payment of final dividend	5 March 2018
Payment of interim dividend	third week in August 2018

SHAREHOLDER ANALYSIS
as at 25 November 2017

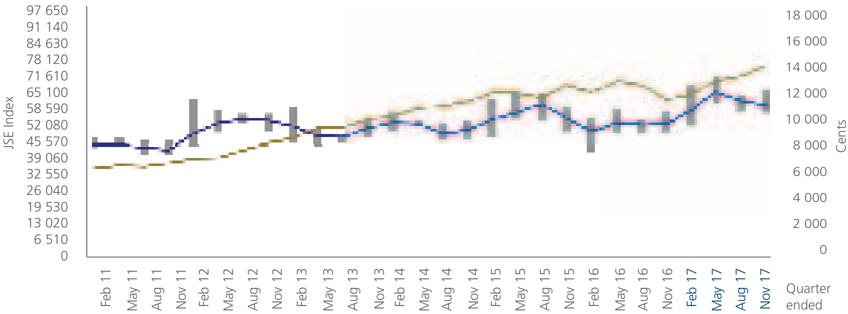
Shareholder analysis	Number of shareholders	Number of shares	% of issued shares
Portfolio size			
1 – 1 000 shares	**2 396**	895 875	2,83
1 001 – 5 000 shares	**855**	1 972 114	6,23
5 001 – 10 000 shares	**143**	1 046 260	3,31
10 001 – 100 000 shares	**181**	6 499 636	20,54
Over 100 000 shares	**53**	21 231 818	67,09
Total[1]	**3 628**	31 645 703	100,00
Category			
Banks and nominee companies	**51**	2 753 937	8,70
Financial institutions and pension funds	**244**	21 685 445	68,53
Individuals	**3 275**	6 595 610	20,84
Other corporate bodies	**58**	610 711	1,93
Total[1]	**3 628**	31 645 703	100,00
Shareholder spread			
Public	**3 609**	30 090 268	95,09
Non-public	**19**	1 555 435	4,91
Directors and associates[2]	**18**	1 551 235	4,90
Share trust	**1**	4 200	0,01
Total[1]	**3 628**	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	1 428 777	4,51
PSG Balanced Fund	1 295 259	4,09
Nedgroup Investments Value Fund	1 090 033	3,44
Old Mutual Life Assurance	1 084 173	3,42
Dunford Holdings (Pty) Ltd	970 812	3,07
Fund managers holding more than 3%		
PSG Asset Management	4 503 744	14,23
Public Investment Corporation	3 218 750	10,71
Prudential Portfolio Managers	2 360 029	7,46
Melville Douglas	1 994 799	6,30
Old Mutual Investment Group	1 868 667	5,90
36ONE Asset Management	1 208 707	3,81
Foord Asset Management	1 195 951	3,78
Sanlam Investment Management	1 011 293	3,19

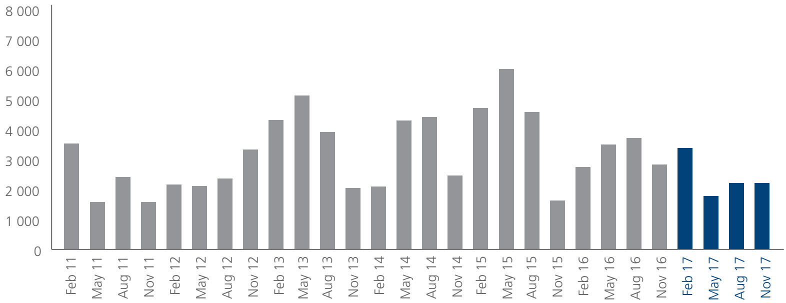
(1) Excludes 2 507 828 shares held by a subsidiary company
(2) A list of shareholdings of senior management is available on request from the group secretary

SHARE INFORMATION

Share price history



Volume of shares traded (000)



JSE statistics	**2017**	2016	2015	2014	2013	2012	2011
Market price (cents)	**13 600**	10 850	10 701	9 590	10 365	11 200	8 475
NAV per share (cents)	**7 252**	6 525	5 827	5 210	5 737	5 277	4 721
Number of shares in issue (000)*	**31 646**	31 646	31 646	31 646	31 646	31 646	31 646
Market capitalisation (Rm)*	**4 304**	3 434	3 386	3 035	3 280	3 544	2 682
Price: earnings ratio (times)	**11,0**	9,3	9,2	10,3	9,6	10,4	10,1
All Share Industrial Index PE ratio (J257)	**30,4**	27,0	22,6	21,6	21,0	18,7	17,4
Dividend yield (%)	**3,1**	4,8	4,9	4,8	4,5	4,2	4,3
All Share Industrial Index dividend yield (J257) (%)	**1,9**	2,5	2,3	2,2	2,2	2,4	2,6
Annual trade in Hudaco shares							
Number of transactions recorded	**29 245**	20 903	36 271	22 549	23 223	12 034	7 427
Volume of shares traded (000)	**9 714**	12 995	17 211	13 475	15 638	10 121	9 242
% of issued shares traded*	**31**	41	54	43	49	32	29
Value of shares traded (Rm)	**1 234**	1 341	2 007	1 354	1 496	1 062	757

** Excludes 2 507 823 treasury shares.*

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 33rd Annual General Meeting (AGM) of Hudaco Industries Limited

Notice is hereby given that the 33rd AGM of shareholders of the company for the year ended 30 November 2017 will be held at 11:00 on Thursday, 5 April 2018 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 10:30.

Important dates and times (1),(2)	2018
Record date for determining which shareholders are entitled to receive the AGM notice	Friday, 16 February
Notice posted to shareholders on or about	Friday, 23 February
Last day to trade to be eligible to participate and vote at the AGM	Monday, 26 March
Record date for attending and voting at the AGM (3)	Thursday, 29 March
AGM to be held at 11:00	Thursday, 5 April
Results of AGM to be released on SENS on	Thursday, 5 April

Notes

(1) All times referred 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, 16 February 2018, and the record date for purposes of determining which shareholders of the company are entitled to participate and vote at the AGM is Thursday, 29 March 2018. Accordingly, only shareholders who are recorded as such in the register maintained by the transfer secretaries of the company on Thursday, 29 March 2018 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 2017, distributed as required.

   Copies of the integrated report which contains the full audited consolidated annual financial statements for the year ended 30 November 2017 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:

NOTICE OF ANNUAL GENERAL MEETING (continued)

2.1 Ordinary Resolution Number 1.1: Re-election of Mr SJ Connelly;

2.2 Ordinary Resolution Number 1.2: Re-election of Ms N Mandindi.

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 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.

For Ordinary Resolution Numbers 1.1 and 1.2 to be adopted, the support of more than 50% of the total number of votes exercisable by shareholders, present in person or by proxy, is required.

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 in 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 elect a director appointed since the previous AGM

To elect as director Mr MR Thompson, appointed by the board during the course of the year and who is required to retire in terms of clause 21.2.6 of the company's MOI and who is eligible and has offered himself for election.

The nomination committee of the board has reviewed the composition of the board against corporate governance and transformation requirements and has recommended the election of Mr MR Thompson. It is the view of the board that the election of Mr MR Thompson 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.

A brief *curriculum vitae* of Mr MR Thompson is included in the Hudaco integrated report.

For Ordinary Resolution Number 2 to be adopted, the support of more than 50% of the total number of votes exercisable by shareholders, present in person or by proxy, is required.

4. Ordinary Resolution Number 3: 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 2018 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), the Companies Regulations 2011 and the JSE Listings Requirements and has accordingly nominated Grant Thornton for re-appointment as auditors of the company.

For Ordinary Resolution Number 3 to be adopted, the support of more than 50% of the total number of votes exercisable by shareholders, present in person or by proxy, is required.

5. Ordinary Resolution Number 4: 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:

5.1 Ordinary Resolution Number 4.1: To elect Ms D Naidoo as member;

5.2 Ordinary Resolution Number 4.2: To elect Ms N Mandindi as member, subject to the passing of Ordinary Resolution Number 1.2;

5.3 Ordinary Resolution Number 4.3: To elect Mr MR Thompson as member, subject to the passing of Ordinary Resolution Number2.

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 in 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.

For Ordinary Resolution Numbers 4.1, 4.2 and 4.3 to be adopted, the support of more than 50% of the total number of votes exercisable by shareholders, present in person or by proxy, is required.

6. Special Resolution Number 1: Approval of non-executive directors' remuneration

That the remuneration, exclusive of value-added tax, payable to the non-executive directors of Hudaco for their services as directors for the period 1 April 2018 until 31 March 2019, be and it is hereby approved as set out below:

	Proposed 2018		2017	
R	Base fee	Penalty for non-attendance	Base fee	Penalty for non-attendance
Board				
Chairman of the board	**1 033 500***	**19 100**	975 000*	18 000
Board member	**276 300**	**13 500**	260 700	12 700
Lead independent director	**100 000**	**5 000**		
Audit and risk management committee				
Chairman of the committee	**240 400**	**19 100**	226 800	18 000
Committee member	**132 500**	**13 500**	125 000	12 700
Remuneration committee				
Chairman of the committee	**168 500**	**19 100**	159 000	18 000
Committee member	**42 700**	**6 700**	40 200	6 300
Nomination committee				
Chairman of the committee	*****		*	
Committee member	**42 700**	**6 700**	40 280	6 300
Social and ethics committee				
Chairman of the committee	**143 750**	**19 100**	135 600	18 000
Member of the committee	**42 700**	**6 700**	40 200	6 300

** All inclusive fee.*

NOTICE OF ANNUAL GENERAL MEETING (continued)

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 – R28 000 (2017: R26 500), Member – R20 000 (2017: R19 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 2018 until 31 March 2019. 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 in the Hudaco integrated report.

For Special Resolution Number 1 to be adopted, the support of at least 75% of the total number of votes exercisable by shareholders, present in person or by proxy, is required.

7. Non-binding Resolution Number 1: Approval of Hudaco's remuneration policy

That shareholders endorse, through a non-binding advisory vote to ascertain the shareholders' view, Hudaco's remuneration policy. Hudaco's remuneration policy is set out in the remuneration report in its integrated report.

King IV, as well as the amended JSE Listings Requirements require the board (with the assistance of the remuneration committee) to present Hudaco's remuneration policy to the shareholders. This is an ordinary resolution which requires the support of 50% of the total number of votes exercisable by shareholders, present in person or by proxy. This ordinary resolution is of an advisory nature and failure to pass this resolution will therefore not have any legal consequences for existing arrangements. However, should the resolution be voted against by 25% or more of the voting rights exercised, the board undertakes to engage with those identifiable shareholders opposed to the remuneration policy in order to ascertain the reasons therefore, and to address appropriately legitimate objections and concerns.

8. Non-binding Resolution Number 2: Approval of Hudaco's remuneration implementation report

That shareholders endorse, through a non-binding advisory vote to ascertain the shareholders' view, Hudaco's remuneration implementation report. Hudaco's remuneration implementation report is set out in the remuneration report in its integrated report.

King IV, as well as the amended JSE Listings Requirements require the board (with the assistance of the remuneration committee) to present Hudaco's remuneration implementation report to the shareholders. This is an ordinary resolution which requires the support of 50% of the total number of votes exercisable by shareholders, present in person or by proxy. This ordinary resolution is of an advisory nature and failure to pass this resolution will therefore not have any legal consequences for existing arrangements. However, should the resolution be voted against by 25% or more of the voting rights exercised, the board undertakes to engage with those identifiable shareholders opposed to the remuneration implementation report in order to ascertain the reasons therefore, and to address appropriately legitimate objections and concerns.

9. Special Resolution Number 2: Authorising the provision of financial assistance to subsidiaries

That the board of the company be and it is 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 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 cause 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.

For Special Resolution Number 2 to be adopted, the support of at least 75% of the total number of votes exercisable by shareholders, present in person or by proxy, is required.

10. 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;

NOTICE OF ANNUAL GENERAL MEETING (continued)

- 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 13 of this summarised report;
- share capital of the company – note 17 of the company's audited annual financial statements.

Directors' responsibility statement

The directors, whose names appear in the 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 the 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.

For Special Resolution Number 3 to be adopted, the support of at least 75% of the total number of votes exercisable by shareholders, present in person or by proxy, is required.

11. Ordinary Resolution Number 5: 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 5, 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 5 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 5.

For Ordinary Resolution Number 5 to be adopted, the support of more than 50% of the total number of votes exercisable by shareholders, present in person or by proxy, is required.

12. Ordinary Resolution Number 6: 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.

For Ordinary Resolution Number 6 to be adopted, the support of more than 50% of the total number of votes exercisable by shareholders, present in person or by proxy, is required.

Quorum

A quorum for the purpose of considering the resolutions above consists of three shareholders of the company, personally present or represented by proxy and entitled to vote at the AGM. In addition, a quorum will comprise 25% of all voting rights entitled to be exercised by shareholders in respect of the resolutions above.

The date on which shareholders must be recorded as such in the register maintained by the transfer secretaries, Computershare Investor Services (Pty) Ltd to be entitled to attend, participate in and vote at the AGM is Thursday, 29 March 2018.

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.

A form of proxy is attached but may also be obtained on request from the company's registered office. Completed forms of proxy should be returned to the transfer secretaries, Computershare Investor Services (Pty) Ltd, Rosebank Towers, 15 Biermann Avenue, Rosebank, 2196 (PO Box 61051, Marshalltown, 2107), so as to reach them by no later than 11:00 on Tuesday, 3 April 2018. It may also be emailed to them at proxy@computershare.co.za. Any forms of proxy not submitted in this time may nevertheless be submitted to the transfer secretaries before the meeting or handed to the chairman of the AGM prior to the shareholder exercising any rights of a shareholder at the AGM.

By order of the board

R van Zyl
Group secretary

1 February 2018

Transfer secretaries
Computershare Investor Services (Pty) Ltd
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 33rd annual general meeting – for use by certificated Hudaco ordinary shareholders and dematerialised shareholders with own name registration only (see note 1)

For use by Hudaco shareholders at the annual general meeting of Hudaco to be held on Thursday, 5 April 2018 at Hudaco's corporate offices situated at Building 9, Greenstone Hill Office Park, Emerald Boulevard, Greenstone Hill, Edenvale, Gauteng at 11:00 (the annual general meeting).

I/We

of (address)

(please print)

being the holder(s) of (see note 2): ______ ordinary shares in the capital of the company, do hereby appoint

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 SJ Connelly			
1.2 N Mandindi			
Ordinary Resolution Number 2: To elect MR Thompson appointed since previous AGM			
Ordinary Resolution Number 3: To approve the re-appointment of external auditors			
Ordinary Resolution Number 4: Appointment of the members of the audit and risk management committee:			
4.1 D Naidoo			
4.2 N Mandindi			
4.3 MR Thompson			
Special Resolution Number 1: Approval of non-executive directors' remuneration			
Non-binding Resolution Number 1: Approval of Hudaco's remuneration policy			
Non-binding Resolution Number 2: Approval of Hudaco's remuneration implementation report			
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			
Ordinary Resolution Number 5: 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 6: Signature of documents			

Signed at on 2018

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. For administrative purposes only, forms of proxy should be lodged with the transfer secretaries, Computershare Investor Services (Pty) Ltd, Rosebank Towers, 15 Biermann Avenue, Rosebank, 2196 or be posted to them at PO Box 61051, Marshalltown, 2107, or emailed to them at proxy@computershare.co.za, by Tuesday, 3 April 2018 at 11:00 or thereafter to the company by hand at Hudaco's offices situated at Building 9, Greenstone Hill Office Park, Emerald Boulevard, Greenstone Hill, Edenvale, Gauteng. Any forms of proxy not submitted by this time may nevertheless be submitted to the transfer secretaries before the meeting or handed to the chairman of the AGM prior to the shareholder exercising any rights of a shareholder at the AGM.

Additional forms of proxy are available from the transfer secretaries on request.

NOTES

GROUP DIRECTORY

DIVISION	BUSINESS NAME	PRINCIPAL ACTIVITIES	ADDRESS
CONSUMER-RELATED PRODUCTS			
Power tools	Rutherford	Distributor of Makita power tools, Mercury marine engines, instrumentation, rivets and fasteners	Unit 3A & B City Deep Industrial Park 36 Fortune Street City Deep
Security equipment	Elvey Security Technologies	Distributor of electronic security equipment, including intruder detection, access control, CCTV, fire detection and electric fencing, 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
	Commercial ICT	Distributor of Permaconn mobile radio communication equipment and systems as well as hosting and support of core IT infrastructure and communication networks	27 Greenstone Place Greenstone Hill Edenvale
Communication equipment	Global Communications	Distributor of professional mobile radio communication equipment and integrator of radio systems	Highway Business Park Park Street Rooihuiskraal Centurion
	MiRO	Distributor of wireless networking, VoIP and video products and provider 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, ignition leads and rotary oil and hydraulic seals	10 Wankel Street Jet Park
	Partquip	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
	Eternity Technologies	Supplier of batteries, high frequency chargers and related battery equipment to the traction battery market. It also designs, builds and manages battery bays for warehouses and distribution centres	192 Peenz Street Corner Pretoria Road Putfontein Benoni
	Specialised Battery Systems	Distributor of stand-by and solar batteries	23 Golden Drive Morehill Benoni

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GROUP DIRECTORY (continued)

DIVISION	BUSINESS NAME	PRINCIPAL ACTIVITIES	ADDRESS
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, DEUTZ spare parts and provider of service support	5 Tunney Road Elandsfontein
Power transmission	Ambro Steel	Distributor of solid, round, square, hexagonal and hollow bar engineering steels	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	Distributor of pneumatic and process components	Unit D2 Strijdom Commercial Park Tungsten Road Randburg
	Bosworth	Manufacturer of conveyor pulleys, steel fabrication, plate rollings and distributor of sheet rubber	Corner Vereeniging and Juyn Roads Alrode
	Brewtech Engineering	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	Supplier and repairer 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 and supplier of water valves and sewage processing systems.	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	Manufacturer and assembler of cast iron 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 Industrial East 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

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GROUP DIRECTORY (continued)

DIVISION	BUSINESS NAME	PRINCIPAL ACTIVITIES	ADDRESS
ENGINEERING CONSUMABLES continued			
	Proof Engineering	Manufacturer of mining connectors and lighting systems	368 Sifon Street Robertville Roodepoort
	Sanderson Special Steels	Distributor of special steels and provider of heat treatment to the tool making and general engineering industries	18 Junction Street Parow Industria Cape Town
	The Dished End Company	Manufacturer of dished and flanged ends, pressing & flanging of small conical sections, push thru's and weld caps	30 North Reef Road Elandsfontein Germiston
	Three-D Agencies	Distributor of electrical cable accessories and electrical instruments	Unit B1, Route 24 50 Herman Street Meadowdale
	Varispeed	Distributor and repairer of commercial and industrial automation and electronic motor control equipment	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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		Reana van Zyl	Group secretary		
		Jonny Masinga	Transformation and human resources executive	Tariro Mutizwa	Head of risk and internal audit
				Nivashree Moodley	Group SHEQ manager

NOTES

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