Hudaco

INTEGRATED REPORT 2018

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

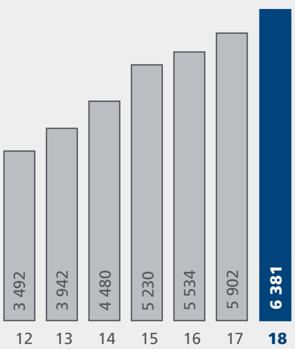
- **Turnover up 8% to R6,4 billion**
- **Operating profit down 3% to R655 million**
- **Headline earnings per share up 3% to 1 289 cents**
- **Comparable earnings per share down 4% to 1 198 cents**
- **Final dividend maintained at 380 cents per share**
- **Return on equity 16%**
- **Cash generated from operations R468 million**

- **Maintained Level 3** on new BEE Codes
- **Diversification** strategy continued to pay off
- **37 employees graduate** from Wits Business School
- **96 bursaries granted** to staff or their family members
- **23 engineering** trainees
- **Economy** in recession for two quarters and Rand highly volatile
- **Still little project business**

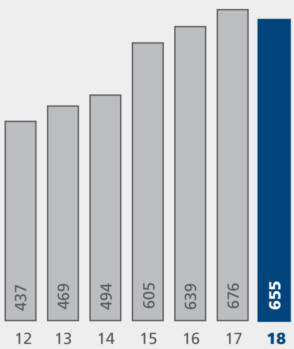
RESULTS IN BRIEF

30 November	2018	2017
Turnover (Rm)	**6 381**	5 902
Operating profit (Rm)	**655**	676
Comparable earnings (Rm)	**379**	396
Headline earnings (Rm)	**408**	398
Attributable earnings (Rm)	**381**	397
Comparable earnings per share (cents)	**1 198**	1 251
Headline earnings per share (cents)	**1 289**	1 256
Dividends per share (cents)	**570**	560

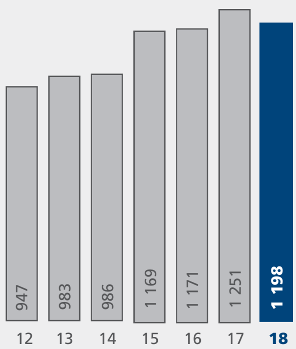
TURNOVER
(RM)



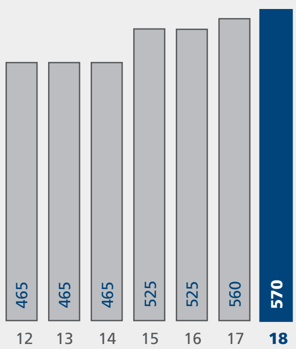
OPERATING PROFIT
(RM)



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 2017 to 30 November 2018. 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 2018 and 30 November 2017. The previous IAR covered the period 1 December 2016 to 30 November 2017. 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 6 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.

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

Report element	Guidelines	Reference
Corporate governance	The JSE Listings Requirements and King IV	Pages 30 to 40
Black economic empowerment status report	Codes of Good Practice, issued by the Department of Trade and Industry (dti)	Page 65
Environmental impact and employee report	Various relevant guidelines including those contained in the global reporting initiative (GRI) G3 indicators	Pages 66 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.

Board approval

Assisted by the audit and risk management committee, the board accepts ultimate responsibility for the integrity and completeness of this IAR. It is the directors' opinion that this report presents a fair and balanced view of the group's integrated performance.

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.

THE SIX CAPITALS – OUR TRANSFORMATIVE IMPACT

Each capital plays a role in our business model. However, the emphasis we place on each is influenced by our core function of importing and distributing high-quality branded industrial, automotive and electronic consumable products, our business model and our chosen strategy. Our decisions and trade-offs influence the efficiency of our operations and the impacts thereon.

FINANCIAL CAPITAL

Our financial inputs comprise a solid equity position and long-term financial stability.

Impact

- Profit shared with ordinary shareholders (R211 million in dividends) and earnings retained for future growth of R192 million;
- Contributed to societal growth by buying goods and services (R4,4 billion), paying taxes (R289 million) and employment (R1,2 billion);
- Market capitalisation of R4,5 billion as at 30 November 2018; and
- Provision of credit to customers of R1,2 billion as at 30 November 2018.

HUMAN CAPITAL

Effective leadership, an ethical culture and Hudaco employees' competencies, skills and diversity as well as our decentralising management style are critical to our success.

Impact

- Provide 4 074 jobs with improved diversity with 30 women in senior management and 17% of senior managers being black; and
- R11,8 million spent on direct training for ongoing skills and development;
- Granted 36 bursaries to employees; and
- Sponsored four MBA graduates.

INTELLECTUAL CAPITAL

Product knowledge, sourcing knowledge. market-knowledge, sales and marketing, brands and intellectual property and value-add capabilities.

Impact

- Continued availability of product and services;
- Product identification, specification and supply;
- Advice on usage or installation; and
- Customer training.

MANUFACTURED CAPITAL

Infrastructure (including tools, technology, machines and buildings) used in the production of services and the delivery of products to customers.

Impact

- Property, plant and equipment of R277 million;
- Source products from more than 800 international suppliers scattered across the industrialised world; and
- Carry more than 230 000 line items – inventory holding is Hudaco's most important asset as our key competitive advantage is the ability to provide product on demand.

NATURAL CAPITAL

Land, energy sources, paper and water. Hudaco is committed to progressively reduce our environmental impact over time.

Impact

- Continued to support renewable energy sector and other climate related solutions.

SOCIAL AND RELATIONSHIP CAPITAL

Stakeholder and supplier relationships along with socio-economic development and skills development.

Impact

- R2,7 million spent on education and skills development of non-employees;
- Loans and contributions of R3,7 million to small and medium enterprises; and
- Build and maintain stakeholder relationships.

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.

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.

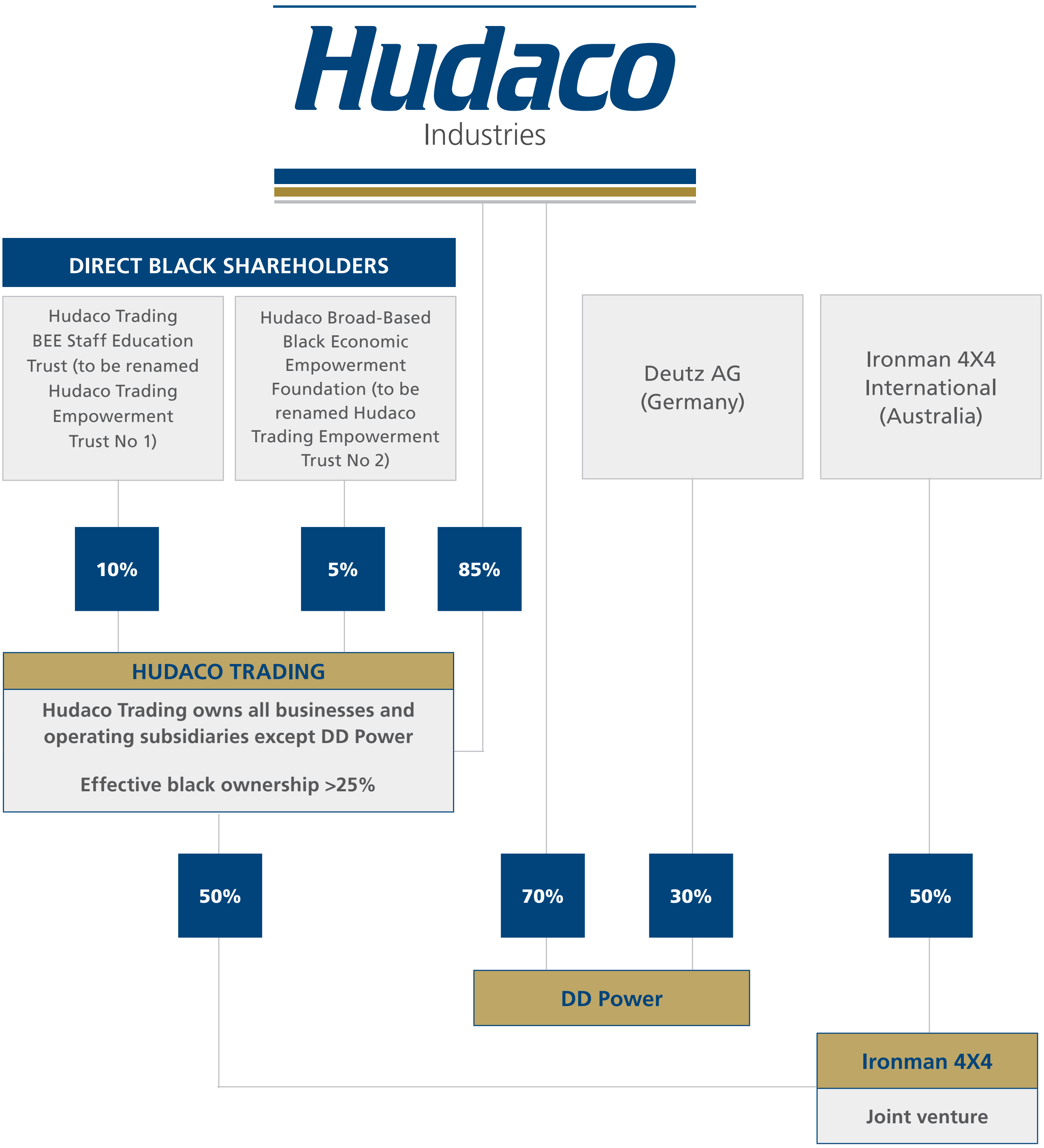
Today

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. The latter 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 3 700 people and has a market capitalisation of about R4,5 billion. Its shareholders include many blue-chip players in the South African investment industry.

ABRIDGED GROUP STRUCTURE



GROUP AT A GLANCE

CONSUMER-RELATED PRODUCTS

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PRINCIPAL ACTIVITIES	BUSINESSES
Automotive aftermarket products	**Abes Technoseal, Partquip and A-Line Wheels**
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 a select range of automotive spares and accessories.
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 and fasteners	**Rutherford and FTS Boltworld**
The distribution of power tools, marine engines, survey instrumentation and fasteners.	Distributes Makita power tools and Mercury marine engines and a comprehensive range of fasteners.
Security equipment	**Elvey Security Technologies, Pentagon, TPA Security Distributors 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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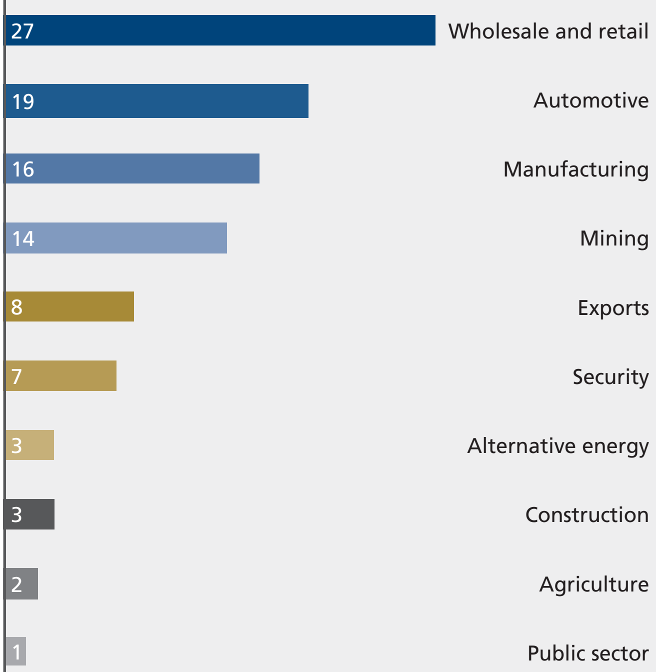
PRINCIPAL ACTIVITIES	BUSINESSES
Diesel engines and spares	**Deutz Dieselpower**
The distribution of Deutz diesel engines and Deutz spares and the provision of service support.	Represents Deutz AG – one of the world's leading independent manufacturers of diesel engines.
Bearings	**Bearings International**
The distribution of bearings, chains, seals, geared motors, electric motors and transmission products.	Has close to 40 branches across South Africa. The main bearing brands distributed are FAG from Germany and KOYO from Japan.
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.
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.
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.

KEY DRIVERS	R million	2018	2017
• Consumer spending • Building activity • Employment levels • Vehicle sales • Analogue to digital migration • Broadband, Wi-Fi and VoIP expansion	**Turnover**	**3 491**	3 051
	– Ongoing	**3 128**	2 958
	– Acquired after Dec 2016	**363**	93
	Operating profit	**462**	428
	– Ongoing	**414**	419
	– Acquired after Dec 2016	**48**	9
	Average net operating assets	**1 935**	1 592
	Number of permanent employees	**1 596**	1 443

KEY DRIVERS	R million	2018	2017
• GDP growth • Mining activity • Mining investment • Mining mechanisation • Manufacturing activity • Electricity usage management	**Turnover**	**2 910**	2 861
	– Ongoing	**2 859**	2 836
	– Acquired after Dec 2016	**51**	25
	Operating profit	**246**	272
	– Ongoing	**228**	265
	– Acquired after Dec 2016	**18**	7
	Average net operating assets	**1 821**	1 710
	Number of permanent employees	**2 111**	2 172

GROUP

SALES BY MARKET SECTOR – 2018 (%)



KEY DRIVERS	R million	2018	2017
• Exchange rates • Acquisitions	**Turnover**	**6 381**	5 902
	– Ongoing	**5 967**	5 784
	– Acquired after Dec 2016	**414**	118
	Operating profit	**655**	676
	– Ongoing	**589**	660
	– Acquired after Dec 2016	**66**	16
	Average net operating assets	**3 781**	3 411
	Number of permanent employees	**3 732**	3 639

SEVEN-YEAR REVIEW

R million	2018	2017	2016	2015	2014	2013	2012
GROUP STATEMENT OF INCOME							
Turnover	**6 381**	5 902	5 534	5 230	4 480	3 942	3 492
Profit before interest and tax	**632**	656	645	600	495	441	437
Net finance costs less dividends received	**91**	81	87	73	37	16	39
Profit before taxation	**541**	575	558	527	458	425	398
Taxation excluding tax settlement	**144**	156	148	141	128	120	47
Profit before tax settlement	**397**	419	410	386	330	305	351
Settlement of tax dispute					312		
Income from joint venture	**3**	3	3	3			
Profit for the year	**400**	422	413	389	18	305	351
Non-controlling interest	**19**	25	25	20	15	11	11
Attributable earnings	**381**	397	388	369	3	294	340
Shares in issue (000) (weighted average)	**31 646**	31 646	31 646	31 646	31 646	31 646	31 646
Earnings per share (cents)							
– comparable	**1 198**	1 251	1 171	1 169	986	983	947
– headline	**1 289**	1 256	1 222	1 163	6	928	1 071
– basic	**1 202**	1 254	1 226	1 164	8	930	1 074
Dividends per share (cents)	**570**	560	525	525	465	465	465
GROUP STATEMENT OF FINANCIAL POSITION							
Property, plant and equipment	**277**	270	256	261	257	214	205
Investment in joint venture	**9**	9	7	7			
Goodwill	**1 505**	1 480	1 243	1 001	730	619	594
Intangible assets	**49**	70	68	69	36	39	49
Deferred taxation – net	**34**	13	26	15	1	10	11
Inventories	**1 822**	1 538	1 508	1 369	1 141	1 104	919
Trade and other receivables	**1 278**	1 156	1 046	990	856	780	684
Trade and other payables	**(989)**	(943)	(898)	(764)	(711)	(673)	(592)
Taxation – net	**(29)**	(26)	3	3	(186)	37	(6)
Net operating assets	**3 957**	3 567	3 259	2 951	2 124	2 130	1 864
Investment in preference shares							2 181
Net borrowings	**(1 163)**	(860)	(905)	(1 016)	(413)	(204)	(17)
Employment of capital	**2 793**	2 707	2 354	1 935	1 711	1 926	4 028
Equity holders of the parent	**2 509**	2 295	2 065	1 844	1 649	1 816	1 670
Non-controlling interest	**70**	81	65	51	33	19	26
Equity	**2 579**	2 376	2 130	1 895	1 682	1 835	1 696
Subordinated debenture							2 181
Amounts due to vendors on acquisitions	**214**	331	224	40	29	91	151
Total capital employed	**2 794**	2 707	2 354	1 935	1 711	1 926	4 028
GROUP STATEMENT OF CASH FLOWS							
Cash generated from trading	**760**	776	709	677	545	520	483
(Increase) decrease in working capital	**(292)**	(65)	37	(153)	(44)	(138)	(121)
Cash generated from operations	**468**	711	746	524	501	382	362
Taxation paid (including tax settlement)	**(164)**	(131)	(175)	(378)	(222)	(169)	(54)
Net cash from operating activities	**304**	580	571	146	279	213	308
Investment in new operations	**(242)**	(210)	(165)	(463)	(224)	(181)	(229)
Investment in property, plant and equipment	**(51)**	(47)	(30)	(31)	(58)	(32)	(39)
Disposal of preference shares						2 181	
Dividends and interest received	**4**					50	202
Net cash from investing activities	**(289)**	(257)	(195)	(494)	(282)	2 018	(66)
Share-based payments	**(18)**	(16)	(5)	(24)	(20)	(7)	(25)
Increase (decrease) in long-term borrowings	**339**	(35)	(90)	603	197		(3)
Subordinated debenture repurchased						(2 181)	
Finance costs paid	**(91)**	(81)	(86)	(73)	(38)	(66)	(237)
Dividends paid	**(211)**	(178)	(174)	(158)	(148)	(164)	(163)
Net cash from financing activities	**19**	(310)	(355)	348	(9)	(2 418)	(428)
Net increase (decrease) in cash and cash equivalents	**34**	13	21	0	(12)	(187)	(186)

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	Measurement of success*	
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	The **primary** measures are **financial** and are detailed in the financial review on pages 24 to 28	24
CUSTOMERS		
We safeguard our strong market shares by offering quality products and have them readily available to our **customers**	**Growth** in market share, measured where information is available and using customer **satisfaction** reviews	
SUPPLIERS		
We establish enduring partnerships with our **suppliers**, combining their leading world brands and our distribution strengths in southern Africa	**Retention** of significant brands, principal relationship reviews, **benchmarking** the market position of a brand in South Africa with its market position internationally	
PEOPLE		
We ensure that a significant part of Hudaco's strength – its **people** – thrive in a decentralised, dynamic and challenging and equitable business environment	Retention and promotion record; **success** on educational programmes; health and safety record; **support** for wellness initiatives	70
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	**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	71
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	**Success** of students on our BEE **bursary programme**, support for and success of our corporate social investment initiatives	76
ENVIRONMENT		
We are conscious of our responsibilities for safety and the **environment**	**Progress** on **goals** as set out in the environmental impact report	66

* *We measure success through financial and non-financial assessments.*

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.

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.

SOURCE

1/

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 often 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.

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 57 to 62. 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 often perceive that rights to conduct business are 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.

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.

Aquisitions

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 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.

Principal activities/product range

- Products are distributed throughout southern Africa by our approximately 35 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, Zambia and more recently in Kenya.

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Consumer-related products

- Automotive aftermarket products
- Power tools and fasteners
- 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

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.

JOINT REPORT OF THE CHAIRMAN AND CHIEF EXECUTIVE

2018 overview

2018 began with much optimism but by year end hopes were frustrated, for the time being at least, by a combination of economic inertia and political rhetoric. We started the year with a new president and a new hope for our country and its economy. In his maiden State of the Nation Address, the president outlined a recovery plan for South Africa, much of which we felt was likely to translate into investment in those sectors of the economy that were traditional Hudaco markets. This would have enabled those of our businesses that have been in austerity mode for the past few years to thrive once again. Notwithstanding the positive steps that have been taken to restore good governance, tackle corruption and boost the economy, specifically mining and manufacturing, it is going to take longer than anticipated for us to see the benefits. Unfortunately this delay had a negative effect on the economy, with the first two quarters showing negative growth pushing South Africa into a technical recession, the first since 2009.

The extreme volatility of the Rand in 2018 made pricing exceptionally challenging. The currency strengthened in the first four months and subsequently declined in the remaining eight months. In the period March to September, the Rand weakened 33% against the US$ from R11,67 to R15,54. The last quarter of our year is generally our strongest but this year, although we managed to grow sales marginally, the gross margin suffered as the decline in the currency was too sharp for us to be able to put through the corresponding increases in selling prices. The more the economy came under pressure from the likes of increases in VAT, petrol, currency and drought, the more pressure was put on prices.

There were two notable changes in turnover from the market sectors we serve. Sales to the wholesale and retail sector grew 17% and to the security sector shrank 7%.

Annual sales were up 8% to R6,4 billion, whilst operating profit decreased 3% to R655 million. Ongoing operations' sales for the group increased 3% to R6 billion, whilst operating profit declined 11%, with both segments battling with pricing in a difficult economy and extremely volatile exchange rates. Sales from ongoing operations in the consumer-related products segment were up 6% while operating profit decreased 1%, whereas engineering consumables' sales from ongoing operations increased 1% and its operating profit declined 14%.

Headline earnings per share were up 3% to 1 289 cents, while comparable earnings per share fell 4% to 1 198 cents because a positive fair value adjustment on the vendor liability (required to be reflected in headline earnings but, in our view, not an item that should be in comparable earnings) was deducted. The return on equity was 16%.

The final dividend has been maintained at 380 cents, giving us a total dividend for 2018 up 1,8% at 570 cents. Comparable earnings cover the full dividend 2,1 times, which falls within our long-standing dividend policy range of paying between 40% and 50% of comparable earnings.

Maintained Level 3
on new BEE codes

Diversification strategy
continued to pay off

> 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.

Financial position

The financial position remains healthy but more of the strong cash generation than usual went into working capital, mainly because of an investment in readily saleable inventories that was higher than planned. The group had R1 163 million in net bank borrowings at year end, up from R860 million in 2017, after R242 million was spent on acquisitions. More importantly, interest payments were covered seven times by operating profits, compared with 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 at year end of R1 822 million are higher than we had anticipated because some of our businesses turned out to be over ambitious in stocking up for the last quarter. Rutherford, Partquip and MiRO have a total of R140 million more stock than last year. It is all readily saleable stock which will turn into cash in 2019. Inventories in the rest of the group are up 8,5%, excluding take-on inventory of acquisitions of R66 million. The return on net operating assets including goodwill (RONA) in 2018 is 17,3%.

Consumer-related products

The consumer-related products segment comprises 14 businesses. In 2018, it made up 55% of Hudaco's sales and 65% of operating profit.

The segment increased sales by 14% to R3,5 billion and operating profit by 8% to R462 million. Operating profit margin was 13,2%.

MiRO, our distributor of wireless connectivity products, achieved another year of strong growth as it continued to add to its impressive basket of wireless technology products. The automotive spares and accessories businesses, Partquip and Abes, had another good year. There was good organic growth from our battery businesses of SBS, Deltec and Eternity. This mainly in the alternative energy and wholesale and retail sectors.

Rutherford, the second largest business in this segment and the main activity of which is the distribution of Makita power tools and garden equipment, had a tough year, as sales to the big box stores declined. The move at the beginning of the year to a larger, more effective distribution centre at City Deep has already started paying dividends, including through the very smooth physical integration of Boltworld, which was acquired to bolster FTS, the fastener division of Rutherford. The combined business now trades under the name FTS Boltworld.

Unfortunately, we had disappointing results from our security businesses, Elvey and Pentagon, and our communications business, SS Telecoms. These businesses have dampened what would otherwise have been a good result for the consumer-related products segment.

Senior management
team bolstered

Increased focus on
working capital

JOINT REPORT OF THE CHAIRMAN AND CHIEF EXECUTIVE
continued

Engineering consumables

The 21 businesses that constitute engineering consumables made up the other 45% of sales and 35% of operating profit.

The segment sales were up 1,77% to R2,9 billion whilst operating profit decreased by 10% to R246 million. Operating profit margin decreased to 8,4%.

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 in recent years due to conditions in South Africa not being investment friendly. Whilst Hudaco businesses in this segment are now sized correctly for current market conditions, profits are not growing. We are modifying the structures of some of these businesses to extract synergies where it makes sense. It is important to note however that the returns in most of these businesses are acceptable and they generate the cash we use to diversify and expand our portfolio of businesses.

Deutz Dieselpower and our steel businesses of Ambro, Bosworth and The Dished End Company performed well. HERS, supplying automotive drive trains in the platinum mining sector, also had a much-improved year. Disappointing results came from Astore Keymak (thermoplastic pipes and fittings), Powermite (electrical), Ernest Lowe, Berntel and GPM (hydraulic and pneumatic businesses), and Joseph Grieveson.

Acquisitions

The poor economic climate together with the general uncertainty in South Africa contributed to fewer acquisitions in 2018. Two businesses were acquired in line with our “bolt-on” strategy: FTS Boltworld and TPA Security Distributors, both relatively small, but providing bulk to existing fastener and security businesses. The purchase prices of these businesses totalled R136 million. They contributed 13 cents per share to comparable earnings in 2018 and that should grow to 46 cents in 2019 when both businesses will be included for the full 12 months.

The five acquisitions made in 2017 contributed 36 cents per share to 2018 comparable earnings. The contribution of 2017 acquisitions in the current year was watered down by the effect of a loss at SS Telecoms. The actual contribution to EPS was only 36 cents because SS Telecoms alone was a negative 30 cents.

Neither SS Telecoms nor Brewtech Engineering has performed to the level expected when they were acquired. As a result, the expected purchase prices in terms of the earn-out formula will be lower than originally accounted for and a gain of R34 million has been recognised to reflect this. There will also be claw-backs on the initial payments. The lower level of performance has also required an impairment of the goodwill recognised at acquisition by a similar amount so the net effect on profit for the year and comparable earnings is nil. There is, however, a boost to headline earnings of R34 million.

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. Our philosophy of carefully managing the relationship between margins, inventories and costs means that businesses which find themselves currently serving low or no growth markets generally remain cash generative. We will continue to invest this cash in our higher growth businesses and 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, where appropriate.

Lawsuit against Bravura and certain associates

We are pleased to report that a court date has now been set for our claim against Bravura, Cadiz and certain of their associates for up to R490 million. The matter is to be heard in the last quarter of 2019. 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. We note with interest the announcement by another listed company that was also advised by Bravura on its BEE structure that it too has settled with SARS.

Prospects

Prospects for Hudaco will depend largely on how the economy performs and, in 2019, that is bound to be influenced by the lead-up to and outcome of the national elections in May. We expect that in the first half we will experience more of the same inertia as business adopts a wait and see approach. We are hoping for a positive electoral outcome coupled with some meaningful action and implementation from the government on the economic front. This should kick-start the economy and will hopefully translate into investment in those sectors that are traditional Hudaco markets. Our businesses are well placed to benefit immediately from such a scenario. We expect a stronger year in cash generation as the excess stock in our mainly growth industry businesses are sold. We look forward to the contribution from the new senior management we have brought on board to strengthen our team, as well as the synergies to be gained from the planned restructure of the engineering consumables portfolio and the bolt-on acquisitions in the consumer-related products segment.

Appreciation

Challenging has become the new normal over the past few years given the economic conditions under which we operate. It is only through the commitment and experience of the members of the executive committee as well as management at an individual business level that the group has been able to deliver so consistently. There is excellence among our staff at all levels within the group and their contribution is valued and appreciated. Our loyal suppliers and customers are important stakeholders too and we thank them for the roles that they play in our mutual success.

We thank our experienced board members for their overall guidance and direction over the year. Interaction between non-executive and executive directors has always been constructive, effective and in the best interests of the company.

Directorate

Royden Vice, who was an independent non-executive director from June 2007 and served as chairman of the board from March 2008, retired from the board on 5 April 2018 after the annual general meeting. He was a great asset to the group and his contribution will be missed both personally and professionally. We wish him well in his retirement. On Royden's retirement, Stephen Connelly assumed the role of non-executive chairman and Daisy Naidoo was appointed lead independent non-executive director.

We welcome Louis Meiring as an executive director with effect from 14 January 2019. Louis, an electrical engineer, was with the Zest WEG Group for the past 27 years and served as its group CEO from 2012. His extensive experience of the engineering consumables industry will significantly enhance the skills, capacity and leadership capability of the Hudaco executive team.

SJ Connelly
Chairman

GR Dunford
Chief executive

31 January 2019

STRATEGIC FOCUS

2018

• Improve performance of six businesses that disappointed in 2017	✓ x	Partial
• Achieve organic growth in engineering consumables businesses	x	
• Increase overall operating margin	x	
• Make further acquisitions	✓	Relatively small
• Maintain Level 3 on dti scorecard	✓	

2019

- Bring working capital back in line
- Improve performance of businesses that disappointed in 2018
- Integrate new senior executives
- Extract synergies from engineering consumables businesses
- Better align structure of executives' portfolios
- Make further acquisitions
- Achieve organic growth in engineering consumables businesses

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 3 732 people in Hudaco's 35 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 the impact of the weak economy on both trading and acquisition opportunities, prospects for economic growth in South Africa, volatility of the Rand, activity levels in other African countries and the status of our legal action against Bravura and Cadiz, 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 • Depth of management and succession planning • 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 • Creditworthiness	• 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:

Risk	Explanation	Potential exposure	Mitigation	Residual risk assessment/ probability	Associated opportunity
27 **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 R185 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.	Likely, considering reports on the current state of Eskom. 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.
65 **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 maintained 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 quickly be 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 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 12% of group operating profit, would be hard to replace. The portfolio also includes several other important brands.	Up to R75 million in operating profit per annum per brand.	Maintaining strong relationships with principals and serving them well in the South African market. This is monitored by the audit and risk management committee. The relationships with the major brands are managed by the group chief executive. Acquisitions increase the number of suppliers and dilute exposure to any one brand. The element we cannot mitigate is the risk that a major principal ceases to exist, 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 and including earn-out and claw-back provisions in acquisition agreements.	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.	R200 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

Stephen Connelly (67)

ACMA
Non-executive chairman of the board and the nomination committee and member of the remuneration committee

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 continued to serve on the board in a non-executive capacity and was appointed chairman in April 2018.

Stephen joined the board in 1992.

Nonyameko "Nyami" Mandindi (52)

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 and the remuneration 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 of 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, Accessio and ITSA.

Nyami joined the board in 2015.

Mark Thompson (66)

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 was a member of the corporate and investment banking credit committee of Rand Merchant Bank and a non-executive director of Group Five and a 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 its advisory board and member of the board of one of its major unlisted investments), Sappi Limited Pension Fund (chairman of the audit committee) and is a trustee of a medical research foundation and a member of its investment committee.

Mark joined the board in 2017.

Dhanasagree "Daisy" Naidoo (46)

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

Daisy serves as an independent non-executive director on the boards of Anglo American Platinum, Absa Group, Mr Price Group, STRATE and PLC Nominees. 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 2011.

EXECUTIVE DIRECTORS

Graham Dunford (54)
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 2010.

He was appointed group chief executive in 2014.

Clifford Amoils (57)
BCom, BAcc (cum laude), CA (SA)
Group financial director and member of the executive 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 was a member of the Financial Reporting Investigation Panel of the JSE from 2008 to 2018.

He joined the board in 2009.

Louis Meiring (54)
NDip: Electrical Engineering
Executive director and member of the executive committee and social and ethics committee

Immediately prior to joining Hudaco, Louis was with the Zest WEG Group for 27 years, serving as its group CEO from 2012. He has extensive experience of the engineering consumable industry.

He joined the board on 14 January 2019.

EXECUTIVE COMMITTEE

GRAHAM DUNFORD (54)

NDip: Mechanical Engineering

Chief executive

30 years' service

CLIFFORD AMOILS (57)

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

Group financial director

10 years' service

JONNY MASINGA (41)

NDip: HR Management, BTech: HR Management, BTech: HR Development, MAP

Group executive: Transformation and human resources

Eight years' service

REANA VAN ZYL (52)

BProc, LLB, H Dip: Labour Law

Group secretary

10 years' service

BARRY FIELDGATE (57)

Portfolio executive: Ambro Steel, Bosworth, DD Power, Deutz Dieselpower, Filter and Hose Solutions, Global Communications, MiRO, SS Telecoms, The Dished End Company and executive: Africa development

11 years' service

DAVID ALLMAN (60)

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

Portfolio executive: Abes Technoseal, Astore Keymak, Deltec Energy Solutions, Eternity Technologies and Specialised Battery Systems

32 years' service

LOUIS MEIRING (54)

NDip: Electrical Engineering

Executive director

Joined the group on 14 January 2019

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
- A-line Wheels

Batteries
- Deltec Energy Solutions
- Eternity Technologies
- Specialised Battery Systems

Security equipment
- Commercial ICT
- Elvey Security Technologies
- Pentagon
- TPA Security Distributors

Communication equipment
- Global Communications
- MiRO
- SS Telecoms

Power tools
- Rutherford
- FTS Boltworld

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

Measurement of financial performance

Our overriding financial objective is to achieve long-term growth in earnings and dividends per share while generating adequate returns for shareholders, 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 2018 the gain increased basic and headline earnings per share by 91 cents, compared with 6 cents in 2017.
- Impairment of goodwill, which is also excluded from headline earnings. Reductions in vendor liabilities on earn-out payments are sometimes counter-balanced by an impairment of goodwill in the business concerned, as has been the case in 2018. The impairment decreased basic earnings per share by 90 cents but was added back for headline earnings per share.
- 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 2018 is 1 198 cents as compared to 1 251 cents in 2017. Compound growth in comparable eps over the past five years has been 4% from 983 cents in 2013 and 3,9% over the past 10 years, from 858 cents in 2008, just before Hudaco felt the impact of the global financial crisis.
- Hudaco aims to achieve earnings growth at a rate at least in line with the earnings of the All Share Industrial Index (J257). Since 2013, earnings in the J257 showed compound growth of 4,0% and since 2008 its growth was 7,3%. To achieve this, we encourage our businesses to grow while producing a return over time exceeding the cost of capital. We have matched the growth in the industrial index over five years but are disappointed to have not done the same over 10 years, 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. Another point of reference is to compare Hudaco's performance with those of the *Sunday Times Top 100* companies. If Hudaco's market capitalisation had been large

Comparable earnings per share 2018
1 198 cents
(2017: 1 251 cents)

Cash from operations in 2018 of
R468 million

> Our overriding financial objective is to achieve long-term growth in earnings and dividends per share while generating adequate returns for shareholders, and our internal operating measures and incentive programmes are geared towards this goal.

enough for it to have been included in the 2018 Top 100 report, its compound annual growth rate for the measurement period, being the five years ended 31 August 2018, of 13,4%, would have placed it above the company in 23rd position.

- 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 2018 was 16,3%.
- 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. We achieved an operating profit margin of 10,3%. An 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 2018 the RONTA was 31,0% (2017: 35,7%).

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 570 cents and are made up of an interim dividend of 190 cents and a final dividend of 380 cents, representing a total of 48% 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.

Net cash flow from operating activities of R304 million, after investing R292 million in working capital and paying R164 million in taxation, was strong and once again demonstrates the cash-generative nature of Hudaco's businesses. R211 million was paid out as dividends, finance costs were R91 million and R51 million was spent on property, plant and equipment. R242 million was invested in new businesses, which included earn-out payments, share-based payment obligations of R18 million were settled, a dividend of R4 million was received and long-term borrowings were increased by R339 million. After foreign currency translation gains of R2 million, net short-term borrowings decreased by R36 million to R149 million.

Compound ceps growth for five years **4%** from 983 cents in 2013, matched all share industrial index ceps growth

Return on equity **16,3%**

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 2018, net borrowings amounted to R1 163 million, after the acquisitions in 2018 and 2017 of FTS Boltworld, TPA Distributors (Secequip), SS Telecoms, Commercial ICT, The Dished End Company and Eternity Technologies. 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 6,95%. There are also facilities of R300 million with Standard Bank and R500 million with Nedbank, both at an interest rate of JIBAR plus 1,55%. All four are evergreen revolving credit arrangements whereby a bank is required to provide 367 days' notice should it wish to call up the facility but Hudaco has full flexibility to make repayments and to redraw funds, subject to basic credit assessments at certain levels.

Hudaco has the capacity to take on more senior debt and our acquisition strategy may create the opportunity to do this in future 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 26,7% (2017: 27,1%). There are no existing factors that would result in the rate varying significantly from the normal rate but our BEE learnership programme has had the effect of reducing it by 0,8%.

The gross contribution to government in South Africa, comprising direct and indirect taxation, amounts to R638 million (2017: R640 million) for the year ended 30 November 2018. The composition of this figure is set out in the value-added statement on page 29.

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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 18 and 19. 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.

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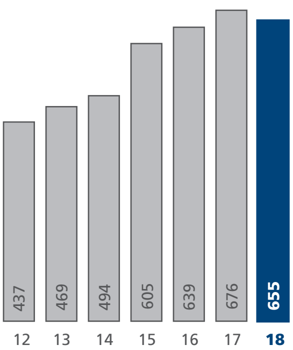
Each business has its own financial team in place which operates substantially independently but to group prescribed standards and policies. The size and strength of the team depends on the size and complexity of the business. Smaller businesses are provided with appropriate support from within the group.

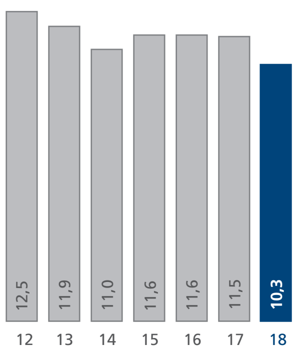
Group services

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, group risk (including internal audit and IT governance) and the use of behavioural assessment software to assist in recruitment and management of personnel. Buying foreign exchange through head office is easier and cheaper for a business than dealing directly with a bank. Businesses enjoy lower bank charges, rates of interest and insurance premiums as well as better risk benefits for employees by being part of the Hudaco group.

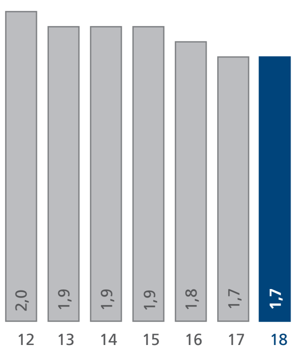
OPERATING PROFIT (RM)



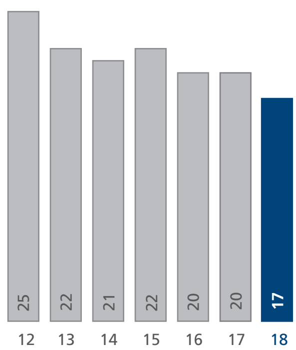
OPERATING PROFIT MARGIN (%)
OPERATING PROFIT/TURNOVER



NOA* TURN (TIMES)
TURNOVER/AVERAGE NOA



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



** Net operating assets*

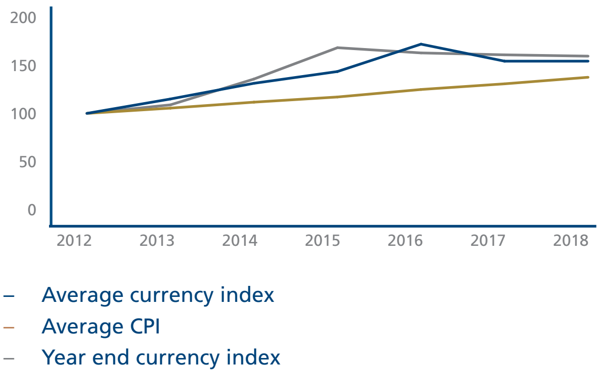
Impact of changes in foreign exchange rates

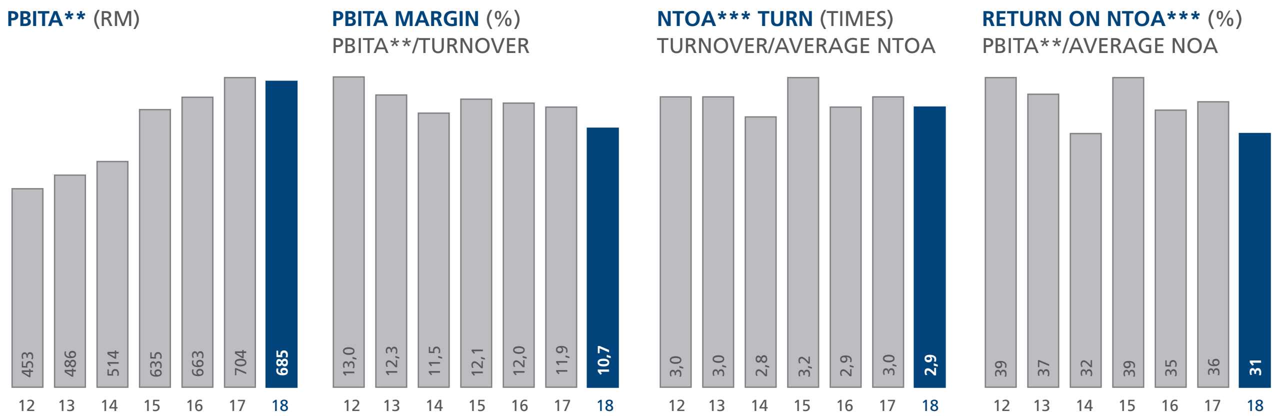
As Hudaco is predominately an importer, prices charged are linked to the Rand exchange rate. While Hudaco's sales line is affected by exchange rate movements, the group's expense line is affected by the local rate of inflation. This imbalance represents a real risk that sales could fall in response to 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 R185 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. 2018 has yet again seen significant volatility of the Rand, even though the rates at the beginning and end of the financial year against the US$ were similar.

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 continues to experience 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 the same in 2018 as in 2017 but there were fluctuations of about 35% between highs and lows during the year.

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





*** Operating profit before amortisation*

**** Net tangible operating assets*

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 up to 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. In the context of Rand volatility instead of a gradually depreciating currency, there is a risk of being locked in at weak exchange rates at times when the Rand strengthens so we seek to manage exposure before a liability crystalises.

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

IT systems

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

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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	2018	2017
Turnover	**6 381**	5 902
Less: Cost of materials, facilities and services from outside	**4 449**	4 077
Value-added	**1 932**	1 825
Capital items and fair value adjustments	**(23)**	(20)
Income from joint ventures	**3**	3
Total wealth created	**1 912**	1 831
Distributed to:		
Employees – salaries, wages and other benefits	**1 198**	1 076
Government (gross contributions)	**638**	640
Indirect contributions, duties and levies	**(494)**	(485)
Net finance costs	**91**	81
Shareholders – dividends	**211**	177
Maintain and expand the group		
– profits retained	**192**	245
– depreciation, amortisation and impairment	**76**	74
Total wealth distributed	**1 912**	1 808

STATEMENT OF GROSS CONTRIBUTIONS TO THE GOVERNMENT IN SOUTH AFRICA

R million	2018	2017
Company income tax and CGT	**144**	155
Assessment rates	**6**	5
Customs and excise duty	**117**	99
Skills development levies, UIF and COIDA	**18**	17
Value-added tax not recognised as input credit	**4**	3
Direct contribution to government	**289**	279
Add the following collected on behalf of the government:		
Value-added tax (net)	**189**	224
Employees' tax and UIF	**160**	137
	638	640

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 approach adopted in King IV of 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.

The board members are further accountable for the ethical and effective leadership of Hudaco and are required to conduct themselves in accordance with the highest ethical standards and with honesty and integrity.

Application of and compliance with King IV

The King IV Report on Corporate Governance for South Africa (King IV) was published in 2016. The board conducts a continuous process of self-assessment 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 available to every board member.

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

Hudaco
Shareholders

HUDACO BOARD			
Social and ethics committee	Audit and risk management committee	Nomination committee	Remuneration committee

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, together with various financial, human resources, internal audit and treasury functions, assists 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 continued targeted training on relevant aspects of legislation. 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 2019 include the continued application of King IV practices, implementation of the POPI Act and ensuring full compliance therewith, as the effective date draws closer, 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. Three are independent non-executive directors, one a non-executive director and the remaining three are executive directors. A short *curriculum vitae* of each of the directors appears on pages 20 and 21 of the integrated report. Hudaco does not have or allow shadow directors.

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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 and the need to address the board's succession plans. The majority of the board members are non-executive directors, most of whom are independent. 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, banking and treasury, 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 and there is a lead independent non-executive director. The board is led by Stephen Connelly, a non-executive chairman. The chief executive is Graham Dunford. As the chairman is not independent, Daisy Naidoo has been appointed as lead independent director.

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

The lead independent director's role is to provide leadership and advice to the board, without detracting from the authority of the chairman, when the chairman has a conflict of interest. A formal mandate had been adopted for the lead independent director which details the following functions:

- to lead in the absence of the chairman;
- to serve as a sounding board for the chairman;
- to act as an intermediary between the chairman and other members of the board where appropriate;
- to strengthen the independence of the board;
- to deal with shareholders' concerns where contact through normal channels has failed to resolve concerns, or where such contact is inappropriate; and
- to chair discussions and decision-making by the board on matters where the chairman has a conflict of interest.

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.

All the other non-executive directors are independent.

The role of the board and board procedures

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

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

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

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

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

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

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

Board charter

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

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

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

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. Two strategic bolt-on acquisitions were made that strengthened the relevant Hudaco businesses and the group continued to add value to the product offering and grew the businesses where feasible. Organic growth was hard to come by due to the depressed trading environment.

Key focus areas for 2019 include:

- integrating of new senior executives and succession planning;
- extracting synergies across businesses;
- improving overall operating margins;
- maintaining diversification strategy for acquisitions; and
- building on group transformation initiatives.

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

Board meeting attendance 2018

	Feb	Apr	Jun	Oct
RT Vice*	✓	✓	n/a	n/a
CV Amoils	✓	✓	✓	✓
SJ Connelly	✓	✓	✓	✓
GR Dunford	✓	✓	✓	✓
N Mandindi	✓	✓	✓	✓
D Naidoo	✓	✓	✓	✓
MR Thompson	✓	✓	✓	✓

** RT Vice retired on 5 April 2018.*

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 June 2018, the board expanded its diversity policy to include race targets as required by the JSE Listings Requirements in addition to the existing gender targets.

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% of the board of Hudaco Industries is made up of women and that at least 30% of the board should comprise black people. At the date of this report, the board comprised 28,6% black women.

On 5 April 2018, Stephen Connelly became Hudaco's chairman on the retirement of Royden Vice on his reaching the age of 72. Louis Meiring was appointed executive director with effect from 14 January 2019.

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 the chief executive as well as the 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 October 2018. The assessments were crafted into an electronic questionnaire comprising 199 questions which incorporated clearly defined areas to be evaluated. The following areas were assessed: composition, board matters, chief executive, chairman, committees, roles and duties and meetings. The questionnaire also afforded opportunity for comments on overall performance.

The board members reviewed the summary of the combined results which, in general (overall board appraisal scored 3.7 out of 5), pointed to an efficient and effective board. However, the following areas received an average score of between 2.4 and 2.8 out of 5:

i) the establishment of a formal process to keep abreast of issues and trends affecting the organisation; and
ii) succession plan for the CEO.

During the discussion of these two areas it was conceded that a process had been established for the board to keep abreast of issues and trends affecting the organisation, albeit not a formal one. It was noted that the CEO periodically distributes industry-and-trend reports, articles on influencers in Hudaco's industries, results and activities of competitors as well as results of business measurements in the board's meeting packs. All the executives are further actively involved in networking and attending conferences and industry shows both locally and internationally on an ongoing basis and trends within the Hudaco businesses itself were being tracked and reported on.

With regard to succession for the CEO, it was noted that one of the objectives of the recent addition of two more senior executives to the team was with a view to providing further suitable options for succession to Graham Dunford, when appropriate.

REMUNERATION COMMITTEE

The members of the committee for the year under review were: Mark Thompson (chairman), Royden Vice, Stephen Connelly and Nyami Mandindi. Royden Vice retired on 5 April 2018 and was replaced by Nyami Mandindi. All the members are non-executive directors and only Stephen Connelly 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 in 2018. 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 2018

	Jan	Jun
MR Thompson	✓	✓
RT Vice*	✓	n/a
SJ Connelly	✓	✓
N Mandindi*	n/a	✓

* *RT Vice retired and N Mandindi became a member on 5 April 2018.*

The remuneration report can be found on pages 41 to 54 of this report. 41

NOMINATION COMMITTEE

The members for the period under review were Royden Vice, Stephen Connelly, Mark Thompson and Daisy Naidoo. Royden Vice retired on 5 April 2018 and acted as chairman until his retirement, Stephen Connelly assumed the chairmanship in his stead. Daisy Naidoo was appointed as member of the committee with effect from 5 April 2018. 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 2018

	Jan	Jun
RT Vice*	✓	n/a
SJ Connelly	✓	✓
D Naidoo*	n/a	✓
MR Thompson	✓	✓

* *RT Vice retired and D Naidoo became a member on 5 April 2018.*

During the period under review, the nomination committee assisted the board with board and committee evaluation and addressing the findings thereof. Members 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 amended the board's diversity policy to include race requirements and targets and reviewed the terms of reference of the committee. The members also recommended the appointment of an additional executive director to the board and reviewed succession plans for senior management to ensure that they were appropriate.

Focus areas for 2019 include 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 2018 financial year were Daisy Naidoo (chairman), Nyami Mandindi and Mark Thompson.

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 group risk and 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 2018.

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 accounting 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:

- The Johannesburg office of Grant Thornton, Hudaco's existing auditors, has recently merged into BDO South Africa Inc. (BDO). After reviewing BDO's and the designated individual partner's suitability for appointment in terms of paragraph 22.15(h) of the JSE Listings Requirements, it nominated the audit firm BDO and audit partner Vanessa de Villiers for appointment by the shareholders at the forthcoming annual general meeting as the auditor for the 2019 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 BDO's independence the committee considered the fact that Grant Thornton, who had been Hudaco's auditors for a period of 33 years, was now part of BDO and that Vanessa de Villiers is due to be rotated after the 2020 audit.
- Consideration was given as to whether the merger of our auditors with BDO presented a suitable opportunity to effect mandatory audit firm rotation at this point. The committee concluded that it would not be in the best interests of the company, primarily because the available timeframe did not allow for a thorough process and proper transition. As things stand, the intention is not to wait until the legislated deadline to effect mandatory audit firm rotation.
- 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 non-audit-related services were rendered by Grant Thornton.
- Budgeted audit fees for the financial year ended 30 November 2018 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, the committee conducted an evaluation of the internal audit function and is satisfied that it was functioning effectively.
- The internal and external auditors have unrestricted access to this committee. Members of the committee are also afforded the opportunity to meet with the head of internal audit and the external auditors without management being present.
- The committee reviewed the interim and annual financial statements and approved them for submission to the board. This review included a consideration of the estimates, judgements and assumptions set out in note 2 to the financial statements.
- The committee considered and noted the key audit matters as determined by Grant Thornton and described in the independent auditor's report.
- 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 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, all 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 18 and 19 of this integrated report.

Audit and risk management committee meeting attendance 2018

	Jan	Jun	Oct
D Naidoo	✓	✓	✓
N Mandindi	✓	✓	✓
MR Thompson	✓	✓	✓

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.

CORPORATE GOVERNANCE continued

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 18 and 19 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.

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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 has been set down to be heard in court in the final quarter of 2019.

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, 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); and
- risk from failure to keep the Hudaco IT systems up to date.

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

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

During 2018 the IT governance committee, chaired by the group financial director, was restructured to comprise the chief financial officers of all Hudaco's businesses as well as IT professionals from the larger businesses within Hudaco. This was done to ensure that responsibility to the IT governance requirements determined for Hudaco lies with people in the various businesses with the appropriate authority and accountability. The committee also reviewed its charter with a view to aligning it with King IV requirements. The board is satisfied that the IT committee has effectively discharged its responsibilities, as contained in its charter for 2018.

Focus areas for 2019 include the following:

- alignment of IT strategies with business strategies at individual businesses;
- an audit of IT skills across the group;
- training for key IT personnel;
- improve policies and procedures around data privacy, cyber security and users;
- apprising management on how IT can enhance profitability through tools, services and best practice; and
- vendor assessments.

EXECUTIVE COMMITTEE

The members of the committee are: Graham Dunford (chairman), Louis Meiring (joined 14 January 2019), David Allman, Clifford Amoils, Brian Constançon (retired 31 January 2019), Barry Fieldgate, Jonny Masinga and Reana van Zyl. The head of internal audit and other senior executives 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 2018

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

SOCIAL AND ETHICS COMMITTEE

As a responsible corporate citizen, Hudaco is committed 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 2018 financial year were Nyami Mandindi (chairman), Clifford Amoils and Daisy Naidoo. With effect from 31 January 2019, Louis Meiring replaced Clifford Amoils as a member of the committee.

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 executives responsible for health and safety and environmental issues, Brian Constançon and 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 2018 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.

In particular, the committee reviewed Hudaco's tax practices and, in collaboration with the company's audit and risk management committee, recommended the adoption of a formal tax policy to the board. This was adopted during October 2018 and defines Hudaco's tax strategy which is for the benefit of all the stakeholders of Hudaco. A copy of this policy is available on the company's website. The committee further considered fair and responsible remuneration within the Hudaco group and considered the principles adopted by Hudaco to drive fair and responsible remuneration. Further information in this regard is set out in the policy section of the remuneration policy report on page 43.

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The committee's terms of reference were also reviewed during October 2018.

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 19 March 2019, 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 2019 include monitoring the group's 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 and tax practices.

CORPORATE GOVERNANCE continued

Social and ethics committee meeting attendance 2018

	Apr	Oct
N Mandindi	✓	✓
CV Amoils	✓	✓
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 2018 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 16 and 17. 16

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.

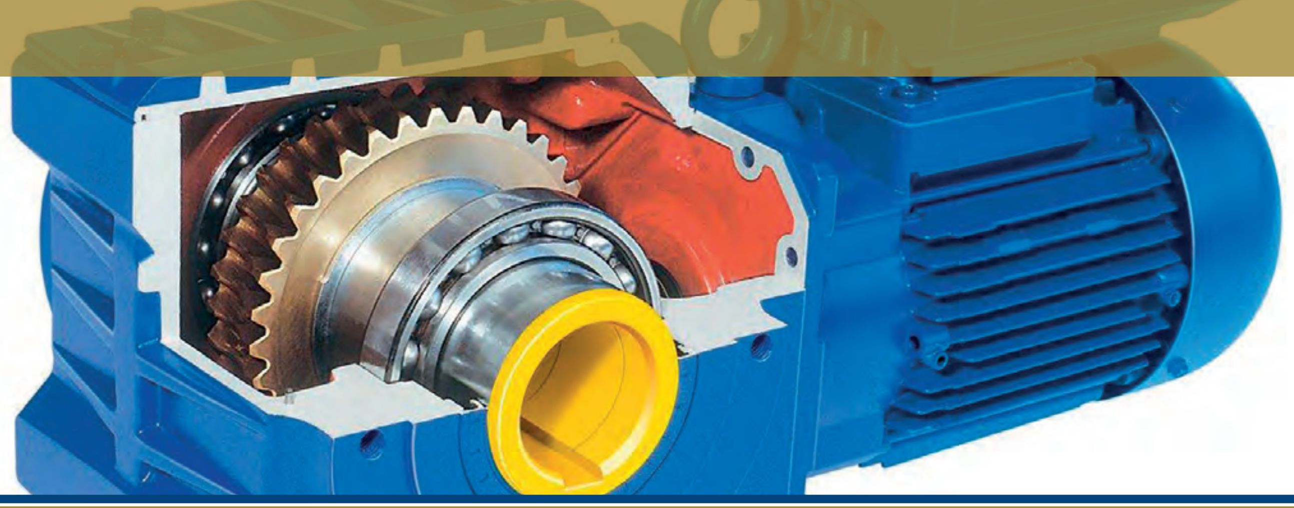
Hudaco acknowledges the importance of its shareholders attending the company's annual general meetings as these meetings offer an opportunity for the shareholders to participate in discussions relating to general meeting agenda items and to raise additional issues. Explanatory notes setting out the effects 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 terms of reference of the remuneration committee (the committee) align its activities with the principles contained in King IV. The structure of Hudaco's remuneration report and the level of detail provided regarding the remuneration of executives are also in compliance with King IV.



The report 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 2018 financial year, employees received approximately 63% of the total wealth created by the group. (See the value-added statement on page 29 of this integrated report.) The table below provides further context to the significance to Hudaco of employee remuneration:

29

	2018	2017
Total number of employees	**4 074**	3 930
Total compensation to employees (Rm)	**1 198**	1 076
Total compensation as a % of revenue	**19**	18

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 15 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 650 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. Hudaco will be determining an appropriate method for assessing progress in managing the pay gap in the group and this will be monitored by the remuneration committee in future. During 2018, the committee obtained a report from all businesses on outliers on both sides of the salary increase scale with a view to ensuring that no prejudice or favouritism took place in the process. The committee also received confirmation that there are no instances of non-compliance with minimum wage requirements.

Most recent results of voting

At the annual general meeting held on 5 April 2018, Hudaco presented both the remuneration policy and the implementation report as two separate non-binding votes to shareholders for approval. The group's remuneration policy only received the support of 72,57% of shareholders who voted. The implementation report received 86,32% approval.

Consequently, dissenting shareholders were invited via a SENS announcement released on 5 April 2018 to engage with the company. However, no responses were received. The group secretary then conducted an investigation into the votes cast and established that all the company's major shareholders, holding more than 3% of Hudaco's shares, voted in favour of the remuneration policy, except for the Public Investment Corporation who voted against the remuneration policy and therefore also against its implementation. It was also identified that in their Proxy Analysis & Benchmark Policy Voting Recommendations, Institutional Shareholder Services Inc (ISS) recommended that shareholders vote against the Hudaco remuneration policy. They cited as reasons that the share usage limit against the company's share schemes significantly exceeds recommended limits and that the matching shares granted under the share matching scheme, which is a retention scheme only, do not have performance conditions attached.

The chief executive and the group financial director held various discussions with key shareholders prior to the annual general meeting. In general shareholders were concerned about the 4 million shares available for issue under all remuneration schemes that was approved by shareholders in 2011. This represents 12,6% of the company's issued share capital, excluding treasury shares. In response to these concerns, it is proposed that a resolution be passed at the forthcoming annual general meeting to reduce this limit to 5% of the issued share capital excluding treasury shares.

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 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 2018 integrated report to ensure that it complied with King IV principles on remuneration and the JSE Listings Requirements.

The committee had intended to assess the variable pay performance conditions and the efficacy of the share appreciation bonus scheme in 2018 but decided to defer that exercise until after the completion of the company's strategic review exercise.

In June 2018, the committee approved average annual salary increases of 7% for the main body of employees and an average of 6,6% for the senior executives.

The short-term bonuses for the senior executives (R12 million in respect of the 2018 financial year compared with R18 million in 2017) 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. While there were increases in the short-term bonuses of some executives in 2018, the average of the short-term bonuses for the executive team decreased by 36% from 2017.

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. Louis Meiring only joined the board on 14 January 2019 and so received no remuneration during the 2018 financial year.

Future areas of focus

The remuneration committee is committed to continued improvement and forward-looking principles. Specifically:
- 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 offer to engage with the shareholders as necessary in the event of any significant dissenting votes on either.
- The principle of fair and responsible remuneration, and the pay gap in particular, will be considered further during 2019.
- A review of the variable pay performance conditions and the efficacy of the share appreciation bonus scheme will be conducted.

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 of executives against an appropriate peer group and to provide input on recent trends. This was done in June 2018 by Khokhela Consulting and the committee satisfied itself that the consultants were independent and objective. A benchmarking exercise on non-executive directors' fees was conducted by Khokhela Consulting in January 2019, the results of which have been taken into account in the fees proposed for approval at the forthcoming annual general meeting.

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 2018 financial year were achieved.

MR Thompson
Chairman of the remuneration committee

31 January 2019

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 behaviour 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 mindful 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.

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 the general body of 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.

REMUNERATION REPORT continued

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 2019, 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 2018, in respect of the chief executive up to a maximum of 152% and the financial director up to a maximum of 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 2019 ceps are not more than 95% of 2018 ceps. The claw-back is reduced on a straight line basis until 2018 ceps is at least matched. For top senior managers the percentage is up to 78% 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 "skin in the game" strategic alignment strategy, top senior managers are encouraged to invest a portion of their maximum potential bonuses in Hudaco shares. Refer to the section headed "Retention-based share matching rights" on page 45.

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”.

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.

Performance-based share appreciation rights

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 (15 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 that were 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 230 people).

Retention-based share matching rights

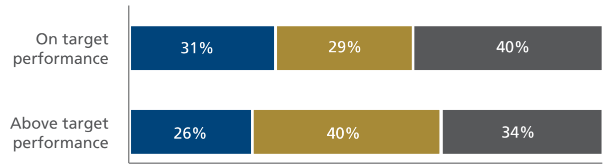
In order to serve as a retention strategy, to align better the interests of the executives with those of shareholders and to ensure that the executives have capital at risk in Hudaco, a share matching arrangement was introduced for executives and top senior managers (the 15 most senior people), who must be three years or more from retirement. Participants are permitted to invest in Hudaco shares up to a maximum of 50% of their maximum potential 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.

Because performance requirements of the share appreciation rights scheme described above do not apply to participants other than executives and top senior management, that scheme serves as a retention scheme for those other participants.

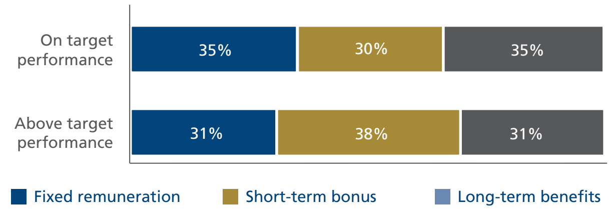
Comprehensive remuneration of the executive directors

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, except for Brian Constançon, who is entitled to a gratuity on retirement of 26 weeks’ remuneration, in terms of a long-standing arrangement for people employed by the group prior to 1983. 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. An independent benchmarking exercise was conducted in January 2019 by Khokhela Consulting. This exercise showed that fees for the chairmen of the board and its committees, as well as for the lead independent director and for membership of the board and the audit committee, were between the 50th and 75th percentile of the market at January 2019. The proposed increase for the period April 2019 to March 2020 of 4% should bring them close to the 50th percentile during that period. Fees for the members of the social and ethics, nomination and remuneration committees were found to be well below market so the proposal is to increase them to the 50th percentile.

REMUNERATION REPORT continued

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 2018 financial year.

Fair and responsible remuneration

Hudaco continues to work on its strategy for fair and responsible remuneration within the group. The principle of equal pay for work of equal value and the elimination of any gender based pay gap is a priority. The executive directors and members of senior management were generally granted 6,6% 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.

The committee obtained a report on all outliers on both sides of the salary review process for 2018 to ensure that there was no indication of prejudice or favouritism.

In 2018, 751 410 share appreciation rights were awarded to a total of 229 people. For the share appreciation rights awarded to 13 executive directors and top senior managers to vest, performance conditions must be met. Rights awarded to the other 216 participants do not have performance conditions.

We will continue to work on assessing and understanding the elements of the pay gap and taking reasonable steps to mitigate it.

Executive directors' remuneration for the year ended 30 November 2018

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
2018	**5 067**	**660**	**190**	**3 000**	**8 917**	**6 883**	**15 800**
2017	4 294	551	203	5 000	10 048	5 664	15 712

Fixed guaranteed remuneration and benefits

As detailed in the 2017 remuneration report, Graham's fixed guaranteed remuneration had been below market so it was benchmarked by Khokhela Consulting against businesses with a similar size, complexity and geographical spread and adjusted accordingly by 9,5% with effect from 1 January 2018. In line with increases granted to other executives, it was increased by 6% with effect from 1 July 2018 from R5 750 000 to R6 095 000.

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 was rounded to R3 million (2017: R5 million):

2018 Measure		Measure achieved 2018	Maximum bonus % available	Bonus % achieved
Measurement	**Target**			
Return on equity	Minimum – 14% Primary – 18% Stretch – 24%	16,3%	54%	25,3%
Increase in ceps	Primary – 10% Stretched – uncapped but subject to claw-back	(2,6%)	73%	0,0%
Personal non-financial objectives			25%	23,8%
Total percentage of guaranteed fixed remuneration			152%	49,1%

Performance-based share appreciation bonus scheme

In line with long-term incentive benchmarks for executive directors, on 23 July 2018 Graham was awarded 102 000 share appreciation bonus rights to be measured off a 10-day VWAP base of R149,51 per share. 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.

During 2018 Graham did not exercise any share appreciation bonus rights. He forfeited 960 rights because the performance requirements were not met in full.

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	Forfeited 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 2018 R000
2018											
	580 320		**102 000**		**960**	**681 360**					
	960	**50,50**			**960**		1 Jul 09	3	Jul 12 – Jul 18	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	**5 600**
	90 000	**125,24**				**90 000**	10 Jul 15	3	Jul 18 – Jul 24	Partial	**754**
	115 860	**102,93**				**115 860**	20 Jul 16	3	Jul 19 – Jul 25	Partial	**4 459**
	105 000	**125,10**				**105 000**	24 Jul 17	3	Jul 20 – Jul 26	Too soon	**1 775**
		149,51	**102 000**			**102 000**	23 Jul 18	3	Jul 21 – Jul 27	Too soon	**Nil**
2017											
	483 986		105 000	8 666		580 320					
	960	50,50				960	1 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

Retention-based share matching scheme

In terms of Hudaco's retention-based share matching scheme, Graham was required to make a three-year investment to the value of between 12,5% and 50% of his 2017 short-term incentive bonus of R5 million in Hudaco shares. Graham elected to make the maximum commitment of 50%, amounting to R2,5 million. To achieve this, on 10 April 2018 when the market price was R166,07 per share, Graham committed 15 054 shares to the value R2,5 million, 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.

7 365 Hudaco shares acquired by Graham in 2015 and held for three years in terms of the share matching scheme were released from their lock-up period and on 21 February 2018 the company purchased for Graham a matching 7 365 shares in the open market at R164,00 per share, the consideration totalling R1 207 860.

Based on his potential maximum short-term bonus, he is entitled to commit to the scheme further shares up to a maximum value of R4 632 200 by 8 April 2019.

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

		Year invested					
	At 30 November 2018	2018	At 30 November 2017	2017	2016	2015	2014
Balance at beginning of year	**69 815**		59 748		47 932	7 365	4 451
Granted during year	**15 054**	15 054	14 518	14 518			
Matured during year	**(7 365)**	(7 365)	(4 451)				(4 451)
Balance at end of year	**77 504**	7 689	69 815	14 518	47 932	7 365	

REMUNERATION REPORT continued

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
2018	**2 933**	**456**	**199**	**1 550**	**5 138**	**3 191**	**8 329**
2017	2 841	320	204	2 750	6 115	2 904	9 019

Fixed guaranteed remuneration and benefits

Clifford's total fixed cost-to-company remuneration increased by 6% on 1 July 2018 from R3 475 000 to R3 683 500. His position was externally benchmarked against companies with a similar size, complexity and geographical spread in 2018.

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 R1 550 000 (2017: R2 750 000):

2018 Measure		Measure achieved 2018	Maximum bonus % available	Bonus % achieved
Measurement	**Target**			
Return on equity	Minimum – 14% Primary – 18% Stretch – 24%	16,3%	44%	19,6%
Increase in ceps	Primary – 15% Stretched – uncapped but subject to claw-back	(2,6%)	56%	0,0%
Personal non-financial objectives			25%	22,5%
Total percentage of guaranteed fixed remuneration			125%	42,1%

Performance-based share appreciation bonus scheme

In line with long-term incentive benchmarks for executive directors, on 23 July 2018 Clifford was awarded 43 000 share appreciation bonus rights to be measured off a 10-day VWAP base of R149,51. 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 2018 Clifford exercised 20 000 rights awarded in 2010 at a base price of R68,09 per right and 9 000 rights awarded in 2011 at a base price of R81,05. These rights were all exercised at a 10-day VWAP of R163,84, resulting in a gain, settled by the delivery of 16 235 Hudaco shares, acquired by the company in the open market at R2 605 885. He forfeited 1 387 rights because the performance requirements were not met in full.

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	Forfeited 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 2018 R000
2018											
	329 047		**43 000**	**29 000**	**1 387**	**341 660**					
	1 387	**50,50**			**1 387**		1 Jul 09	3	Jul 12 – Jul 18	n/a	**n/a**
	20 000	**68,09**		**20 000**			7 Aug 10	3	Aug 13 – Aug 19	n/a	**n/a**
	27 000	**81,05**		**9 000**		**18 000**	13 Jul 11	3	Jul 14 – Jul 20	Assured	**1 097**
	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	**1 990**
	45 600	**125,24**				**45 600**	10 Jul 15	3	Jul 18 – Jul 24	Partial	**382**
	54 960	**102,93**				**54 960**	20 Jul 16	3	Jul 19 – Jul 25	Partial	**2 115**
	49 000	**125,10**				**49 000**	24 Jul 17	3	Jul 20 – Jul 26	Too soon	**828**
		149,51	**43 000**			**43 000**	23 Jul 18	3	Jul 21 – Jul 27	Too soon	**Nil**

	Outstanding rights beginning of year	Strike price R	Granted during the year	Taken up during the year	Forfeited 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

Retention-based share matching scheme

In terms of Hudaco's retention-based share matching scheme, Clifford was required to make a three-year investment to the value of between 12,5% and 50% of his 2017 short-term incentive bonus of R2 750 000 in Hudaco shares. Clifford elected to make the maximum commitment of 50%, amounting to R1 375 000. To achieve this, when the market price was R166,07 per share, Clifford utilised 8 280 of the Hudaco shares he acquired in exercising the share appreciation bonus rights referred to above.

7 806 Hudaco shares acquired by Clifford in 2015 and held for three years in terms of the share matching scheme were released from their lock-up period and on 21 February 2018 the company purchased for Clifford a matching 7 806 shares in the open market at R164,00 per share, the consideration totalling R1 280 184.

Based on his potential maximum short-term bonus, he is entitled to commit to the scheme further shares up to a maximum value of R2 302 188 by 8 April 2019.

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

	At 30 November 2018	2018	At 30 November 2017	Year invested 2017	2016	2015	2014
Balance at beginning of year	**49 796**		44 923		33 400	7 806	3 717
Granted during year	**8 280**	8 280	8 590	8 590			
Matured during year	**(7 806)**	(7 806)	(3 717)				(3 717)
Balance at end of year	**50 270**	474	49 796	8 590	33 400	7 806	

Senior executives' remuneration for the year ended 30 November 2018

David Allman – Portfolio executive: Abes Technoseal, Astore Keymak, Bearings International, 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
2018	**2 143**	**329**	**157**	**1 560**	**4 189**	**1 631**	**5 820**
2017	2 008	310	177	1 100	3 595	1 439	5 034

Fixed remuneration

David's total fixed cost-to-company package increased by 7% on 1 July 2018 to R2 675 000 (2017: R2 500 000). His position was externally benchmarked in 2018 against businesses with a similar size, complexity and geographical spread. There had been some changes in his portfolio of responsibilities.

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 560 000 (2017: R1 100 000). In addition, a bonus of 9,4% has been earned in terms of the formula but is required to be held back until the following year and is subject to claw-back if performance criteria are not met.

2018 Measure		Measure achieved 2018	Maximum bonus % available	Bonus % achieved
Measurement	**Target**			
Return on net tangible operating assets	Varies by business	38,1%	32%	15,3%
Increase in operating profit	Varies by business Uncapped but subject to claw-back	17,9%	32%	32,0%
Personal non-financial objectives			14%	11,0%
Total percentage of deemed guaranteed fixed remuneration			78%	58,3%

Performance-based share appreciation bonus scheme

In line with long-term incentive benchmarks for top senior management, on 23 July 2018 David was awarded 25 000 share appreciation bonus rights to be measured off a 10-day VWAP base of R149,51. 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 6 April 2018, David exercised 11 520 rights awarded in 2014 at a base price of R92,04 per right. These rights were exercised at a 10-day VWAP of R164,15, resulting in a gain, settled by the delivery of 5 060 Hudaco shares, acquired by the company in the open market at R856 007. He forfeited 160 rights because the performance requirements were not met in full.

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	Forfeited 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 2018 R000
2018											
	163 160		**25 000**	**11 520**	**160**	**176 480**					
	160	**50,50**			**160**		1 Jul 09	3	Jul 12 – Jul 18	n/a	**Nil**
	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**		**11 520**		**42 480**	25 Jul 14	3	Jul 17 – Jul 23	Partial	**1 141**
	24 900	**125,24**				**24 900**	10 Jul 15	3	Jul 18 – Jul 24	Partial	**209**
	32 100	**102,93**				**32 100**	20 Jul 16	3	Jul 19 – Jul 25	Partial	**1 235**
	28 000	**125,10**				**28 000**	24 Jul 17	3	Jul 20 – Jul 26	Too soon	**473**
		149,51	**25 000**			**25 000**	23 Jul 18	3	Jul 21 – Jul 27	Too soon	**Nil**
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

Retention-based share matching scheme

In terms of Hudaco's retention-based share matching scheme, David was required to make a three-year investment to the value of between 12,5% and 50% of his 2017 short-term incentive bonus of R1 100 000 in Hudaco shares. David elected to make the maximum commitment of 50%. To achieve this, David committed 3 537 Hudaco shares at the open market price of R155,10 per share.

3 394 Hudaco shares acquired by David in 2015 and held for three years in terms of the share matching scheme were released from their lock-up period and on 21 February 2018 the company purchased for David a matching 3 394 Hudaco shares in the open market at R164,00 per share, the consideration totalling R556 616.

Based on his potential maximum short-term bonus, he is entitled to commit to the scheme further shares up to a maximum value of R1 043 250 by 8 April 2019.

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

	At 30 November 2018	2018	At 30 November 2017	Year invested 2017	2016	2015
Balance at beginning of year	**16 221**		13 221		9 827	3 394
Granted during year	**3 537**	3 537	3 000	3 000		
Matured during the year	**(3 394)**	(3 394)				
Balance at end of year	**16 364**	143	16 221	3 000	9 827	3 394

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

R000	Fixed remuneration	Retirement fund contributions	Other benefits	Short-term incentive bonus	Total remuneration
2018	**1 938**	**303**	**141**	**250**	**2 632**
2017	1 821	286	171	1 450	3 728

Fixed guaranteed remuneration and benefits

Brian's total fixed cost-to-company package increased by 6% from 1 July 2018 to R2 425 000 (2017: R2 284 000). His position was externally benchmarked in 2018 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 of R250 000 (2017: R1 450 000).

2018 Measure		Measure achieved 2018	Maximum bonus % available	Bonus % achieved
Measurement	**Target**			
Return on net tangible operating assets	Varies by business	22,9%	32%	0
Increase in operating profit	Varies by business Uncapped but subject to claw-back	(19,4%)	32%	0
Personal non-financial objectives			14%	10,3%
Total percentage of guaranteed fixed remuneration			78%	10,3%

Performace-based share appreciation bonus scheme

Brian reaches retirement age during 2019 and therefore was not eligible to participate in this long-term bonus scheme during 2018.

On 1 August 2018 Brian exercised 19 948 rights awarded in 2014 at a base price of R92,04 per right and 3 750 rights awarded in 2015 at a base price of R125,24. These rights were all exercised at a 10-day VWAP of R150,50, resulting in a gain, settled by the delivery of 8 377 Hudaco shares, acquired by the company in the open market at R1 248 918. He forfeited 320 rights because the performance requirements were not met in full.

He 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	Forfeited 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 2018 R000
2018											
	64 820			**23 698**	**320**	**40 802**					
	320	**50,50**			**320**		1 Jul 09	3	Jul 12 – Jul 18	n/a	**n/a**
	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**		**19 948**		**13 052**	25 Jul 14	3	Jul 17 – Jan 20	Partial	**351**
	7 500	**125,24**		**3 750**		**3 750**	10 Jul 15	2	Jul 18 – Jan 20	Partial	**31**

	Outstanding rights beginning of year	Strike price R	Granted during the year	Taken up during the year	Forfeited 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											
	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	2	Jul 18 – Jan 20	Partial	740

Retention-based share matching scheme

Brian reaches retirement age during 2019, so he was not eligible to participate in this retention-based long-term bonus scheme in 2018.

2 862 Hudaco shares acquired by Brian in 2015 and held for three years in terms of the share matching scheme were released from their lock-up period and in March 2018 the company purchased for Brian a matching 2 862 shares in the open market at R164,00 per share, the consideration totalling R469 368.

Brian holds the following position in the share matching scheme:

				Year invested		
	At 30 November 2018	2018	At 30 November 2017	2017	2016	2015
Balance at beginning of year	**10 062**		10 062		7 200	2 862
Matured during year	**(2 862)**	(2 862)				
Balance at end of year	**7 200**	(2 862)	10 062		7 200	2 862

Barry Fieldgate – Portfolio executive of Bosworth, Brewtech, MiRO, SS Telecoms, Global Communications, HERS, The Dished End Company, Filter and Hose Solutions, Ernest Lowe 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
2018	**2 427**	**356**	**138**	**1 050**	**3 971**	**1 810**	**5 781**
2017	2 278	334	138	1 305	4 055	1 567	5 622

Fixed guaranteed remuneration and benefits

Barry's total fixed cost-to-company package increased by 7,4% on 1 July 2018 to R2 900 000 (2017: R2 700 000). His position was externally benchmarked in 2018 against businesses with a similar size, complexity and geographical spread and he assumed additional responsibilities in 2018.

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 was rounded to R1 050 000 (2017: R1 305 000):

2018 Measure		Measure achieved 2018	2017 Weighting	Bonus % achieved
Measurement	**Target**			
Return on net tangible operating assets	Varies by business	30,5%	32%	17,6%
Increase in operating profit	Varies by business Uncapped but subject to claw-back	5,1%	32%	6,1%
Personal non-financial objectives			14%	12,0%
Total percentage of guaranteed fixed remuneration			78%	35,7%

Performance-based share appreciation bonus scheme

In line with long-term incentive benchmarks for top senior management, on 23 July 2018 Barry was awarded 27 000 share appreciation bonus rights to be measured off a 10-day VWAP base of R149,51. 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 2018.

Barry has the following rights in the share appreciation bonus scheme:

	Out-standing rights beginning of year	Strike price R	Granted during the year	Taken up during the year	Forfeited 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 2018 R000
2018											
	176 900		**27 000**			**203 900**					
	8 000	**109,26**				**8 000**	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	**1 588**
	30 000	**125,24**				**30 000**	10 Jul 15	3	Jul 18 – Jul 24	Partial	**253**
	34 800	**102,93**				**34 800**	20 Jul 16	3	Jul 19 – Jul 25	Partial	**1 339**
	30 000	**125,10**				**30 000**	24 Jul 17	3	Jul 20 – Jul 26	Too soon	**507**
		149,51	**27 000**			**27 000**	23 Jul 18	3	Jul 21 –Jul 27	Too soon	**Nil**
2017											
	146 900		30 000			176 900					
	8 000	109,26				8 000	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

Retention-based share matching scheme

In terms of Hudaco's retention-based share matching scheme, Barry was required to make a three-year investment to the value of between 12,5% and 50% of his 2017 short-term incentive bonus of R1 305 000 in Hudaco shares. Barry elected to make the maximum commitment of 50%. To achieve this, Barry purchased 3 834 Hudaco shares on the open market at R168,95 per share.

3 444 Hudaco shares acquired by Barry in 2015 and held for three years in terms of the share matching scheme were released from their lock-up period and on 21 February 2018 the company purchased for Barry a matching 3 444 Hudaco shares in the open market at R164,00 per share, the consideration totalling R564 816.

Based on his maximum potential short-term bonus, he is entitled to commit to the scheme further shares up to a maximum value of R1 131 000 by 8 April 2019.

Barry holds the following positions in the share matching scheme:

				Year invested		
	At 30 November 2018	2018	At 30 November 2017	2017	2016	2015
Balance at beginning of year	**18 201**		14 834		11 390	3 444
Granted during year	**3 834**	3 834	3 367	3 367		
Matured during year	**(3 444)**	(3 444)				
Balance at end of year	**18 591**	390	18 201	3 367	11 390	3 444

Non-executive directors' remuneration

Non-executive directors' remuneration for the period ended 30 November 2018

R000 (excluding VAT)	**2018**	2017
RT Vice[(1)]	**342**	957
SJ Connelly[(1)]	**833**	386
N Mandindi	**571**	512
SG Morris[(2)]		318
D Naidoo	**644**	518
MR Thompson	**608**	250
Total	**2 998**	2 941

[(1)] *RT Vice retired and SJ Connelly assumed the chair on 5 April 2018.*
[(2)] *SG Morris retired 30 June 2017.*

Proposed non-executive directors' fees for 2018/2019

At Hudaco's annual general meeting to be held on 19 March 2019, shareholders will be requested to approve the non-executive directors' fees for the period 1 April 2019 until 31 March 2020 as set out below. These proposed fees were determined pursuant to an independent benchmarking exercise conducted by Khokhela Consulting in January 2019 as described on page 45.

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	Proposed 2019	
R000 (excluding VAT)	**Base fee**	**Penalty for non-attendance**
Board		
Chairman of the board	1 075*	20
Lead independent non-executive	391	19
Board member	287	14
Audit and risk management committee		
Chairman of the committee	250	20
Committee member	138	14
Remuneration committee		
Chairman of the committee	175	20
Committee member	80	13
Nomination committee		
Chairman of the committee	*	
Committee member	58	9
Social and ethics committee		
Chairman of the committee	150	20
Member of the committee	66	11

** 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.

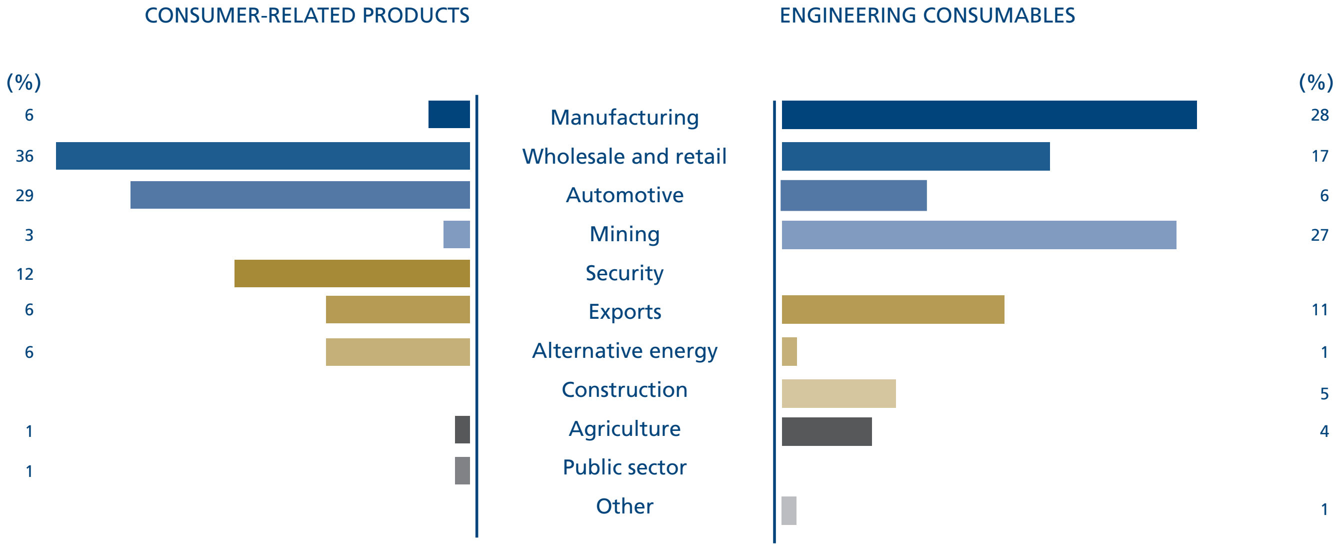
The fee for additional meetings would be: chairman – R29 000, member – R21 000.

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.

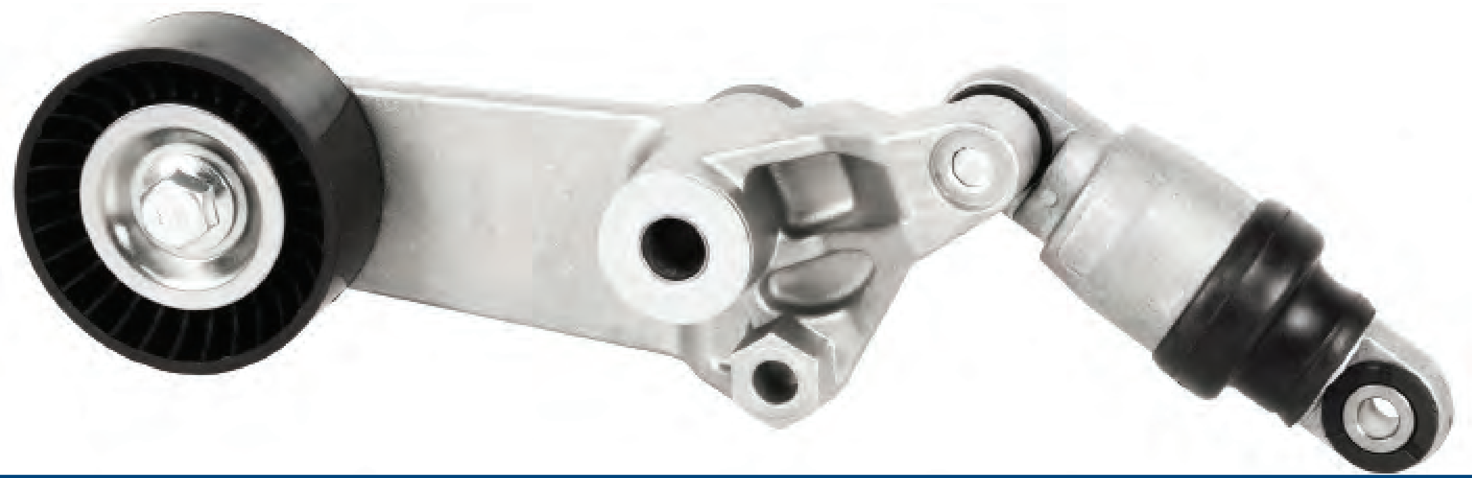
As Hudaco is principally an importer, the main determinant of prices is exchange rates. The extreme volatility of the Rand rate of exchange against our basket of currencies in 2018 made pricing and maintaining gross margin very difficult. A 33% weakening of the Rand against the Dollar from March to September affected our gross margin in the last quarter, as in most cases we were unable to pass on the entire increases. The full impact of any significant movement in the Rand on prices generally takes about six months to flow through.

SALES BY MARKET SECTOR – 2018



Consumer-related products

The main business of this segment is the distribution and supply of products to intermediaries (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 and Ironman 4X4 accessories.
- A-Line Wheels distributes alloy and steel automotive wheels and accessories.
- Abes Technoseal distributes light and heavy duty clutch kits, ignition leads and oil seals.
- Rutherford distributes Makita industrial power tools, Mercury marine engines, survey equipment and nuclear gauges and rivets and fasteners.
- FTS Boltworld supplies a comprehensive range of fasteners, including rivets, screws, bolts, nuts and washers.
- Elvey Security Technologies and TPA Distribution distribute intruder detection, access control and related CCTV equipment.
- Pentagon supplies and installs integrated security and life safety solutions, offering system design and integration into surveilance, access control, 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 services 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 60 for a geographic analysis of the source of supply of the consumer-related products range.

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Performance

In 2018, the consumer-related products segment contributed 55% of group turnover and 65% of group operating profit. Turnover grew by 14% to R3,5 billion whilst operating profit grew 8% to R462 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, A-Line Wheels and Abes Technoseal

Rand sales for the year were moderately up on prior year but a volatile Rand meant that more units were sold across most product lines than in the previous year. Strict management of margins and continued vigilance in controlling costs, enabled these businesses to deliver another pleasing set of results for the year.

Partquip remains our biggest business and distributes to resellers in the automotive aftermarket a select range of automotive spares, including suspension, bearings and mountings components. Ironman 4X4 is a 50% joint venture between Partquip and Ironman 4X4 International of Australia. It distributes tough and reliable suspension systems and accessories for 4X4 vehicles, primarily for the recreation market but also some to the original equipment market.

A-Line Wheels distributes both alloy and steel wheels and accessories.

Abes Technoseal supplies clutches, Bougicord leads, hydraulic and pneumatic seals to the automotive aftermarket and seals to the industrial and construction equipment markets. Clutch unit sales grew well year on year through new product development and our heavy duty plant gaining market share.

We see the automotive aftermarket continuing to grow in the years ahead as the national vehicle pool grows and the demand for competitively priced quality products increases. The older vehicle parc still has traction as owners look to repair their vehicles rather than buy new ones. This is indicated by flat sales of new cars over the past three years: 2016: 361 264; 2017: 368 114; 2018: 365 246. Our businesses will ensure that they continue to position themselves so as to ensure that they capitalise on this growth in demand.

PRINCIPAL BRANDS: PARTQUIP AND A-LINE WHEELS

Partquip	Select range of quality guaranteed automotive components.	Own brand since 1984
A-line Wheels	Select range of alloy and steel wheels.	Own brand since 1999
Ironman 4x4	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
Bougi Cord	Ignition cables from France.	Exclusive distributor since 2007

Rutherford and FTS Boltworld

Rutherford represents Makita Japan, which produces high-quality (and hence high cost) industrial power tools and outdoor power equipment designed for everyday use and used mainly by manufacturing or installation businesses and is a market leader in lithium ion battery technology. The continual improvement in battery technology has resulted in significant growth in our Makita cordless power tool and cordless outdoor power equipment sales.

Rutherford markets both the premium industrial Makita power tool range as well as the second-tier industrial power tool range, Makita MT. This successful strategy enables Rutherford to increase both turnover and market share in an economy under pressure.

Rutherford Marine is the agent for both the Mercury outboard and the Mercruiser inboard motor brands. Mercury launched a new range of V6 and V8 outboard motors in 2018, with leading lightweight technology in the 175HP category. There has been huge demand in the USA for the new range and we look forward to get meaningful volumes once that demand has been satisfied. Rutherford continues to offer its successful boat, motor, trailer packages to dealers.

With the construction and mining sectors being under significant pressure, survey equipment sales at VI Instrumentation continue to be depressed.

REVIEW OF OPERATIONS continued

In 2018, FTS Boltworld was formed through the combination of Rutherford's existing fastener business FTS, which included the previously acquired All-Trade, with newly acquired Boltworld, which was a significantly larger business. FTS Boltworld follows a two pronged strategy of selling a comprehensive range of fasteners to both resellers and end-users and operates from Rutherford's distribution centre.

PRINCIPAL BRANDS: RUTHERFORD AND FTS BOLTWORLD		
Makita	Japanese designed industrial power tools.	Distributor since 1968 Sole distributor since 1985
Mercury	Outboard motors from USA.	Sole distributor since 1986
Mercury MerCruiser	Petrol inboards and sterndrives from USA.	Sole distributor since 1986
Troxler	Nuclear gauges used for compaction control of soil, concrete, asphalt and aggregate from USA.	Sole distributor since 1974
South	Global positioning systems and survey instrumentation from China.	Sole distributor since 2014
FTS Boltworld	Comprehensive range of quality fasteners.	Sole distributor of own brand since 1972

Security products: Elvey Security Technologies, TPA Security Distributors, Pentagon and Commercial ICT

Our security businesses experienced a challenging trading environment with overall performance well down on prior year. Against a backdrop of generally subdued household spending, Elvey was negatively impacted by a change in product strategy by its largest customer, as well as price wars on its previously exclusive brands. Although an uptick was experienced in the first half of the year, corporate and government infrastructure spending started slowing in the second half, which impacted the projects business, particularly at Pentagon, our integrated security projects division. Exports into sub-Saharan Africa improved markedly, along with the improvement in general trading conditions in the sub-Saharan regions. Commercial ICT performed well, continuing to grow it's annuity income base.

Whilst we anticipate little improvement in trading conditions leading up to the elections, we are looking forward to an improved performance in the year ahead. The acquisition of TPA towards the end of 2018, gives us exclusive access to the strong Texecom brand, around which we are able to build our value-add proposition, in addition to extending our footprint and market share. At this stage, both tender and pipeline activity suggest a slight improvement in the projects market, particularly in the second half of 2019. Exports into sub-Saharan Africa are expected to improve further, helped in part by the recent establishment of our regional distribution hub in Kenya. Margins are expected to remain under pressure, driven by suppliers who open up to multiple distributors and supply directly to market on a selective basis. We will, however, respond appropriately to these challenges and remain focused on supplying a unique range of leading security technologies and solutions, supplementing it with superior service, training and technical support.

PRINCIPAL BRANDS: ELVEY SECURITY TECHNOLOGIES, TPA SECURITY DISTRIBUTORS, PENTAGON AND COMMERCIAL ICT		
Bosch – Invented for life	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
Texecom	A leading manufacturer of alarm systems from the UK.	Sole distributor since 2018
Impro technologies	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
Dahua	Global video surveillance products from China.	Distributor since 2011
Permaconn	A leading designer and manufacturer of alarm communication products from Australia.	Sole distributor since 2017

Communication equipment: MiRO, Global Communications and SS Telecoms

MiRO has delivered excellent results, showing strong growth in both turnover and profit. The business continued with its strategy to launch enterprise level solutions into light-licensed and fully licensed spectrum, creating opportunities for MiRO to do business with larger operators, telcos and enterprise business. MiRO's traditional fixed wireless broadband division continued to show strong growth, bolstered by new brands and a more solution-focused approach with clients. The new fibre portfolio matured into a solid contributor to sales.

MiRO's new product groups for 2019 include licensed spectrum backhaul, IoT (Internet of Things) and consumer security. MiRO will also take on the distribution of a few strong brands in the networking space in 2019. MiRO plans to continue on its steady growth path through the provision of value-added services. Operations will be streamlined through a new distribution centre to handle imports and the supply chain to branches. The new business in Kenya has started to show meaningful growth over the last quarter of 2018, with customers beginning to buy into what we can offer them as a business. We also plan on stepping up marketing activities and launching more brands into the region during the course of 2019.

Global Communications has completed its right-sizing exercise and the full benefits will only be seen in 2019. Global secured the roll-out of a Digital Tetra Trunking Network and the supply of radio terminals for the nine ACSA nationally operated airports. Digital migration has continued to ramp up and sales of Kenwood's new multi-protocol radio have shown strong growth this year. We are anticipating volume growth in 2019 through Africa sales but the local market will probably remain muted unless there is an uptick in projects.

SS Telecoms is a value added distributor providing consumer and enterprise products and solutions, including broadband, specifically LTE, LTE-A and mobile products for operators, as well as enterprise IPBX solutions from premise based to cloud technology platforms, industry specific and vertical digital solutions. It also provides cloud voice and data services with installation, support and repair services.

The business had a very difficult year indeed, compounded by the loss of its largest client which moved to a direct sourcing model. It traded at a loss and its business model is currently under review. This has not been a successful acquisition for Hudaco, resulting in the claw-back provisions on the purchase price having to be invoked, even though the earn-out period still has one year to run.

PRINCIPAL BRANDS: MiRO		
Ubiquiti Networks	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
Rohill	Tetra digital radio infrastructure.	Sole distributor since 2002
Barrett Tactical Communications	HF and VHF tactical communication equipment.	Distributor since 2010

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

Deltec had a very good year with growth coming from increases in mining traction business and sales to the wholesale motor battery industry.

Specialised Battery Systems supplies the stand-by battery systems for support infrastructure to the telecommunication, computer, security and alarm markets. The batteries sold some years ago during the initial load-shedding have started to require replacement so we expect good growth in 2019.

Eternity Technologies, which was acquired in August 2017, has performed to expectations and continues to grow in the forklift and battery bay markets, supplying large warehouses that operate 24/7. Eternity's new formation plant that will manufacture forklift batteries locally is due for completion and production early in 2019.

REVIEW OF OPERATIONS continued

PRINCIPAL BRANDS: DELTEC, SBS AND ETERNITY TECHNOLOGIES		
DELTEC BATTERIES	Sealed lead acid batteries.	Own brand since 2016
FULMEN BATTERIES	Back-up power in UPS, telecoms security, etc.	Sole distributor since 2000
CSB BATTERY	Back-up power in UPS, telecoms security etc.	Sole distributor since 2000
ROYAL CALCIUM BATTERY	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 Technologies	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
Philadelphia Scientific	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 a better year as the really disappointing results from our security businesses and SS Telecoms, which dampened what would otherwise have been a good result for the consumer-related products segment in 2018, should not be repeated in 2019.

We see the automotive aftermarket businesses continuing to grow organically in the years ahead. They are well positioned with the right brands and products for the ever-growing automotive aftermarket sector.

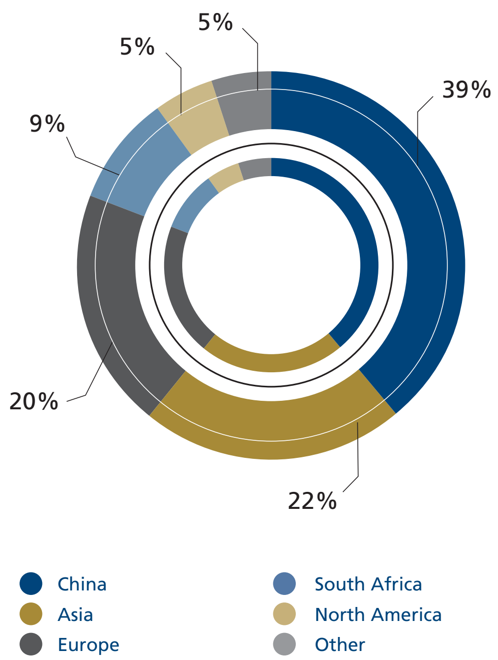
The fastener business will have the benefit of a full year of sales from FTS Boltworld and the synergies from the new Rutherford distribution centre.

MiRO will continue to take advantage of the growth in data connectivity and IP convergence across South Africa and we see this being maintained for the foreseeable future.

Our three battery businesses that now cover the full spectrum of batteries is poised for a good year ahead as we should benefit from increased sales as the new formation plant that manufactures forklift batteries comes into production early in the year, the renewed threat of load-shedding and the replacement of stand-by batteries reaching the end of their lifecycle.

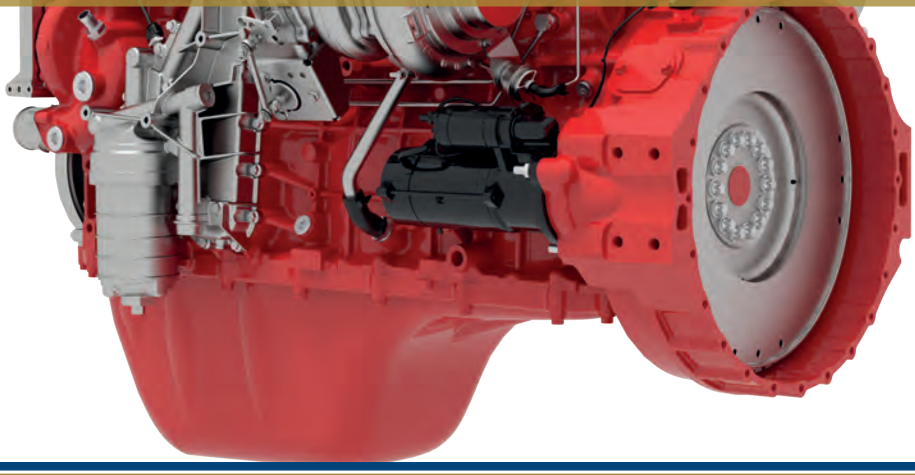
CONSUMER-RELATED PRODUCTS

SOURCE OF PRODUCTS



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 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.



This segment comprises the following main businesses and activities:

- Bearings International has close to 40 branches across southern Africa. The main bearing brands distributed are INA, FAG and KOYO. It also distributes chains, 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 and other 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.

REVIEW OF OPERATIONS continued

Performance

In 2018, the engineering consumables segment contributed 45% of group turnover and 35% of group operating profit. Turnover was flat at R2,9 billion whilst operating profit decreased by 10% to R246 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 ten 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.

Deutz Dieselpower and our steel businesses of the Ambro, Bosworth and The Dished End Company performed well. HERS, supplying automotive drive trains to the platinum mining sector, also had a much-improved year. Disappointing results came from Astore Keymak (thermoplastic pipes and fittings), Powermite (electrical), Ernest Lowe, Berntel and GPM (hydraulic and pneumatic businesses) and Joseph Grieveson.

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Refer to page 65 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 flexible hose for various market sectors such as agriculture, mining, gas and fire reel hose and remains resilient. Due to the drought and land reform issues in the agriculture sector, growth in the thermoplastic markets was curtailed and challenging. The closure of two major local thermoplastic producers could positively impact our position in the market going forward. We are hoping that government increases and spends wisely their budget allocation for the water and sewage infrastructure, which is in desperate need of upgrading. We are perfectly placed to supply product should this be the case.

Bearings International and Bauer

Bearings International distributes bearings, transmission products, chains, seals, belts and geared and electric motors through its extensive branch network to diverse end-user segments (including mining, steel, manufacturing, petro-chemical, sugar, agriculture, wholesale and retail) and experienced another difficult year. The mining sector, one of Bearings International's strong contributors, remains under pressure (especially gold and uranium) together with wholesale and retail contracting, reflecting the depressed state of the engineering consumables market across all segments. Good growth from export business within the sugar industry was offset by a decline in the general agricultural segment due to drought conditions across the country but mainly in the Western Cape.

Gross margins across product categories deteriorated further, partly due to the volatile Rand but also due to a slow economy which makes competition for sales more fierce. Tender business has increased albeit at lower margins as industries continue to squeeze margin on commoditised products.

Growth from Bauer – gearboxes and geared motors, remains positive and initiatives taken to strengthen the team are starting to yield results.

Management has been bolstered and additional measures have been taken to accelerate the growth strategy at Bearings International so we remain confident that, despite low forecasted GDP growth, 2019 will be a good year for this business.

PRINCIPAL BRANDS: BEARINGS INTERNATIONAL		
SCHAEFFLER INA FAG	Precision bearings from Germany.	Distributor since 2005
JTEKT Koyo TOYODA	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

Belting Supply Services and Brewtech

Belting Supply Services is the supplier of rubber belting, hose and Bestobell specialised valves and instrumentation into a mature market. It experienced a challenging year as the traditional markets it supplies such as mining, agriculture and the food industry had difficult trading conditions resulting in flat results for 2018.

Brewtech is a non-exclusive distributor for Rexnord FlatTop Europe and carries their Rexnord, Marbett and MCC ranges 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. 2018 was a trying year for the business as it experienced the set-back of losing a major customer. Despite this challenge, Brewtech was still able to post positive numbers, albeit below those of the previous year. The positive outcome is partly due to growth within the existing local customer base and increasing our export market. In 2019, we will be focusing on growing sales to existing clients as well as expanding the product offering from our in-house manufacturing facility.

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 remained under pressure in 2018. 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, GHH as well as numerous others.

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. Service business forms an integral part of our business, 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 performed well in 2018, despite the difficult economic conditions in which we are operating. The South African mining market in general (one of DDP's main revenue contributors) experienced a difficult year in 2018. Despite this, new engine sales to OEMs showed reasonable growth, along with good aftermarket growth in both the Steelpoort and Rustenburg areas with increased demand from the chrome and platinum mines. DDP also benefitted from the robust activity in copper mining due to the improved copper price, resulting in healthy growth in our Zambia business. Overall, our export business, mainly to sub-Saharan Africa, performed exceptionally well in 2018.

The performance in the genset market remains positive, particularly through sales of complete generating sets. This trend is expected to continue into 2019. The introduction of a special new engine campaign in conjunction with Deutz AG helped increase our new engine sales and led to a gain in market share in the industrial market.

In the year ahead, DDP continues to focus on growing its market share in segments other than mining, thus reducing its reliance on this sector. A new range of 9 – 18 litre in-line engines should also create some new opportunities in 2019. DDP has added to its product offering by including a range of diesel particulate filters (HJS product), as the need grows for reduced diesel particulate emissions in confined working areas such as warehouses and underground mines.

PRINCIPAL BRANDS: DEUTZ DIESELPOWER		
DEUTZ	Air and liquid-cooled engines from Germany 12 – 620kW.	Sole distributor since 1969
HJS Emission Technology	Exhaust after-treatment systems from Germany.	Distributor since 2018

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 experienced a harsh operating environment during 2018 mainly due to the decimation of the construction industry in South Africa. FHS's largest customer base is focused on roads, earthworks, civils and building. Also, the uncertainty around the mining charter led to lack of investment and growth within our current mining customer base and has resulted in financial pressure from our customers regarding pricing, extended credit terms and equipment optimisation.

Internally, the focus was placed on not only retaining the current customer base but also on capturing medium to large new customers within the mining and on-road sectors. Due to the lack of growth in our existing customer base during 2018, FHS embarked on developing an industrial filtration division to extend our product and service offering, thereby diversifying revenue streams. New suppliers and customers have been secured for this new offering so in the year ahead, FHS should reap the rewards of the foundation that has been laid.

Power transmission businesses

Electrical power transmission

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

Powermite and Varispeed experienced a substantial cutback in electrical projects, which impacted their results negatively. Both businesses have quoted on meaningful project business for next year. Proof Engineering sells mainly into the coal mining sector, which was negatively impacted by the reduction in coal purchasing and running down of stockpiles by Eskom. A substantial portion of Proof Engineering's sales this year were exported into southern Africa. Eskom is purchasing coal again so we expect local coal mines to increase production next year. Three-D Agencies continued to expand, but the fluctuating Rand and the equally unstable copper price made it difficult to get price increases into the market.

REVIEW OF OPERATIONS continued

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
PROOF MINING SOLUTIONS	Own range of mining connectors and lighting systems.	Since 1974
MENNEKES®	Plugs and sockets from Germany.	Sole distributor since 1974
CONDUCTIX wampfler DELACHAUX GROUP	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.

The steel market remained severely depressed, with many of our traditional customers working short time. Despite the poor trading conditions, Sanderson maintained its profitability while Ambro managed to grow sales and profit in a very flat 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 acquired 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 on 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 infrastructure problems.

HERS had a very good year, despite the difficult trading conditions in the mining industry. The increased revenue was primarily from a large once-off order to the platinum mines. HERS improved its sourcing of certain components, thereby making the hydraulic cylinders more competitive, which will stand us in good stead for the future.

Bosworth, while still underperforming in a declining market, improved sales and profit in 2018. Capital expenditure in the local mining industry remains muted. The year finished off well, with a healthy order book going into the new year, so we look to further improvement in 2019. We have recently appointed a distributor in West Africa to handle sales of rubber wear lining in that market.

The Dished End Company, which specialises in dished end manufacturing, had another good year of growth. It produces various types of dished ends, from 0,4m to 5,5m diameter and thickness from 4mm to 50mm. It also offers the pressing and flanging of small conical sections and a range of single pressed weld caps.

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
NDC	On-line or at-line analysers from the USA.	Sole distributor since 1994
SAUTER	Building, HVAC and process control from Germany.	Sole distributor since 1980
Donaldson. FILTRATION SOLUTIONS	Heavy duty filtration from USA.	Distributor since 1994
FILTREC Technical Filtration	High performance hydraulic filtration from Italy.	Sole distributor since 2003
KPM Kawasaki Precision Machinery Staffa	Kawasaki Staffa radial piston motors.	Distributor since 2000
KPM Kawasaki Precision Machinery	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

Outlook for the engineering consumables segment

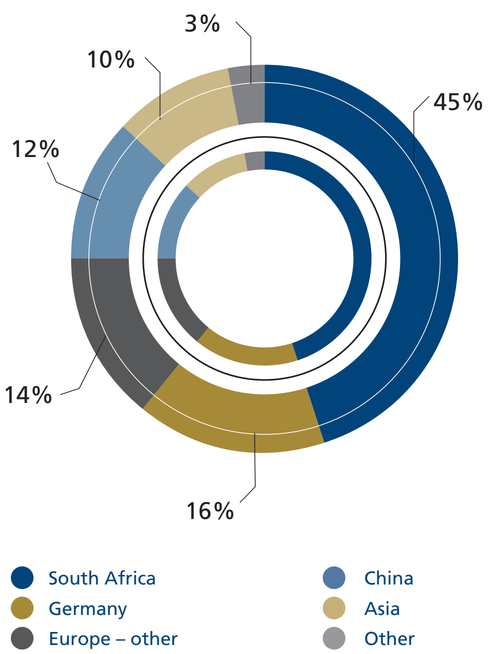
There are two main macro-economic factors that affect the performance of the engineering consumables segment:

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

This segment stands to gain the most from a government that is business friendly and free of corruption. We do not see any change in the economy leading up to the election. Subject to a positive outcome, ensuing optimism is likely to translate into investment in those sectors of the economy in which our engineering consumables businesses operate. 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. In the meantime, towards the end of 2018 we appointed one of our senior executives, on a full-time basis, to identify opportunities for synergies between our engineering consumables businesses and to implement steps to achieve those synergies. If industry is active, we will supply the replacement parts it requires. On the other hand, if the government just delivers more of the same, then we will continue to manage the aspects we can and deliver respectable results, using the cash generated to make acquisitions in growing sectors of the economy.

ENGINEERING CONSUMABLES

SOURCE OF PRODUCTS



AFRICA OUTLOOK

Although it's been a tough year, we have managed to hold our own in the African market. There has been an increase in the awareness of the markets available on the continent. Although the number of mining projects throughout Africa has remained stagnant over the last year, there are still opportunities. On the other hand, many countries are enforcing local content requirements, which makes our task more difficult.

Most of our growth in export sales has been from southern African markets. Even with the difficult conditions that the Zimbabwean economy has been experiencing, it was the group's biggest growth point by country in 2018 but that may change with the effects of the most recent political turmoil. With the relationships we have been building in Zambia over the last few years, we are expecting an increase in sales from the Zambian market in 2019. We also see potential in Mozambique if project activity picks up.

Central Africa remains a difficult market to operate in, but we have landed some good contracts in the region.

Hudaco Trading Kenya, a joint arrangement between Elvey Security Technologies, MiRO and Global Communications, is gaining traction. Due to Kenya expanding its e-commerce and online offering, we should see good returns coming out of that area in the next few years.

Deutz Dieselpower is currently looking to appoint a new partner in Ghana and Bosworth has had some level of success there. West Africa has a large number of mines and mining projects that are currently in operation.

We look forward to solid growth in sales to Africa next year.

BLACK ECONOMIC EMPOWERMENT

During 2018, the group was again audited by independent verification bodies. Hudaco Trading (Pty) Ltd retained its Level 3 BEE rating, which we consider an excellent achievement considering the impact of the new Codes. 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.

REVIEW OF OPERATIONS continued

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See pages 71 and 72 for further details of our transformation programme.

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 and further while we completed another verification cycle. The education and charitable trusts will both become trusts for the benefit of all qualifying black employees of Hudaco. The education programme continued unabated within Hudaco Trading itself and both trusts will be renamed. This restructuring will now be completed during 2019. 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 2017, Hudaco embarked on an extensive learnership initiative with the Maharishi Institute and the Imvula Trust. This impacted positively on the 2018 scorecard rating and benefits about 140 learners, including 25 who are disabled.

In 2018 the initiative was expanded to also include partnerships with Afrika Tikkun and ORT SA. Learnership contracts were awarded to another 180 learners, 40 of whom 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 conduct our business and ensure that our businesses comply with all relevant legislation, applicable 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.

In September 2018, Sabelo Mkhwanazi, an MBA graduate who also holds diplomas in chemical and electrical engineering, was appointed as Hudaco's group SHEQ (safety, health, environmental and quality) manager. He reports directly to Mike Allnutt, the senior executive responsible for SHEQ within Hudaco.

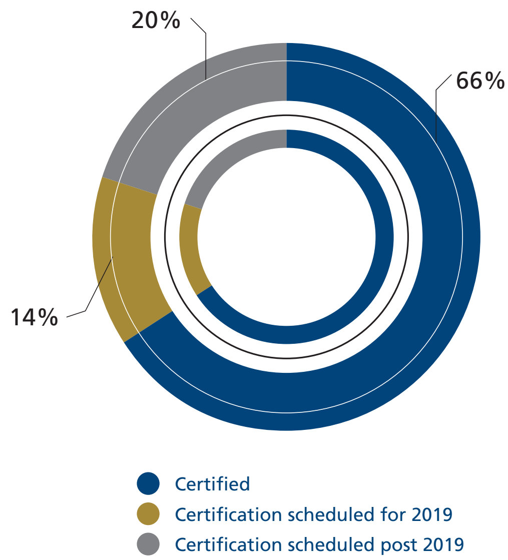
During the past year he worked closely with the group's businesses towards ensuring:

- the integration of environmental management systems;
- adherence to environmental legislation, 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 (conversion to 45001) and ISO 9001 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 2018 (%)



During the year under review the Hudaco businesses had demonstrated acceptable environmental awareness and compliance with relevant legislation.

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.

Businesses' waste collection initiatives have focussed on recyclable material such as packaging (plastic and cardboard) and scrap metals from manufacturing operations.

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.

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 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 aspects and impacts.
- ensuring the businesses identify and provide relevant environmental training and awareness.

Environmental roadmap 2019 – 2021

2019

- All businesses to fast-track implementation of renewable energy project initiatives.
- Effective root cause analysis investigations must be undertaken.
- All businesses with ISO 14001:2004 certification to convert to the ISO 14001:2015 version.
- 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%.

2021

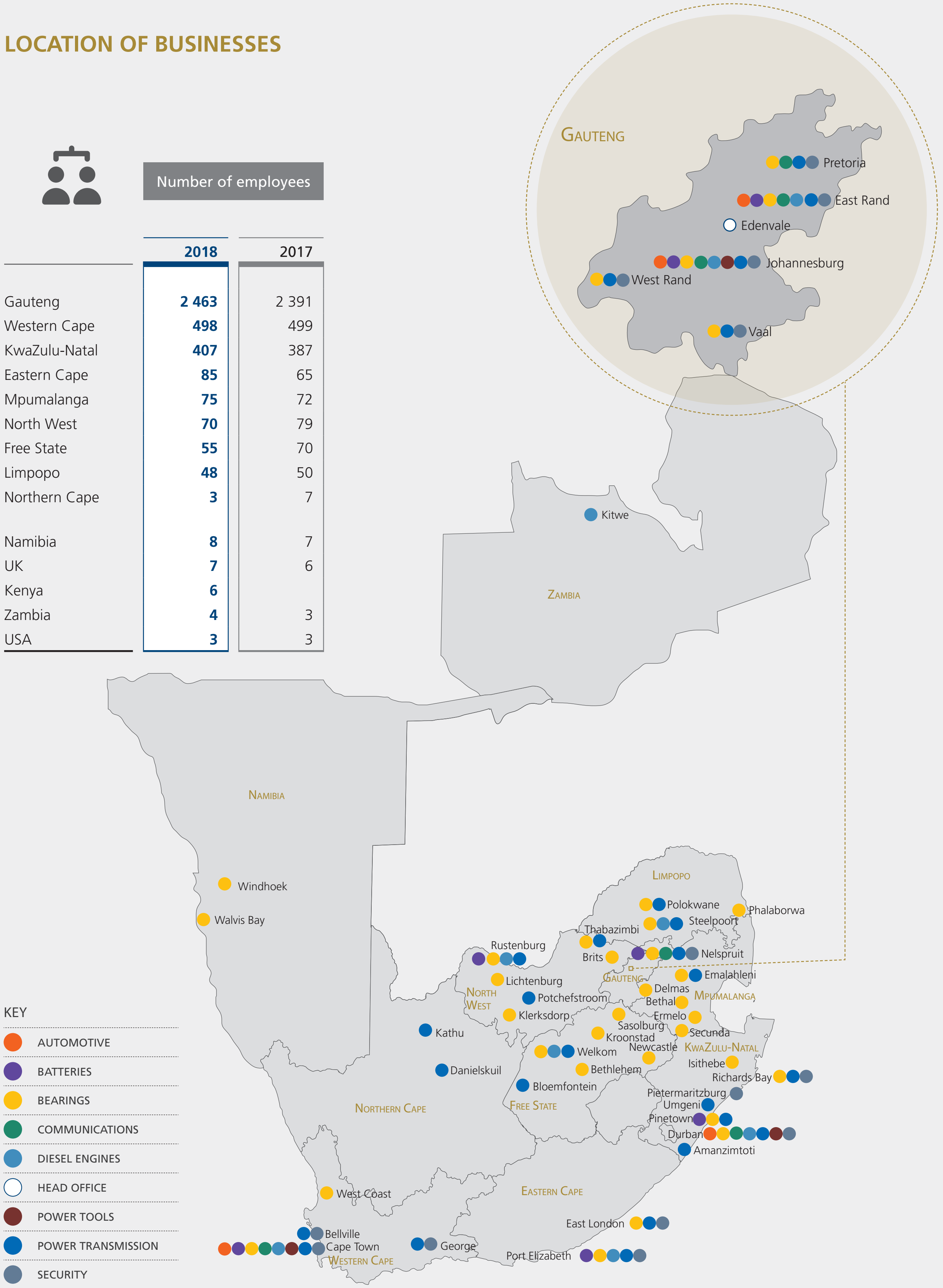
- Reduce carbon footprint.

GEOGRAPHIC FOOTPRINT

LOCATION OF BUSINESSES

Number of employees

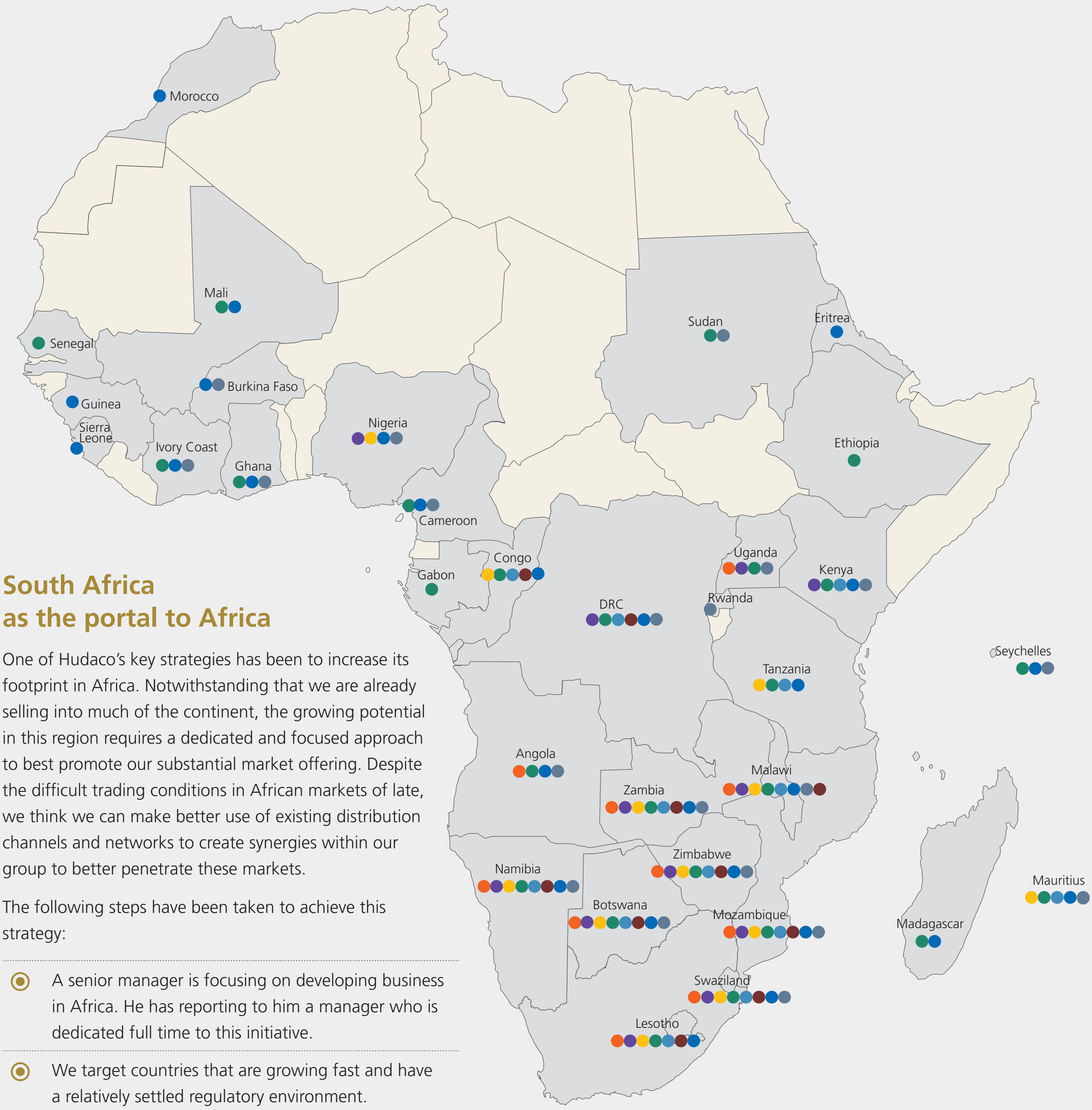
	2018	2017
Gauteng	**2 463**	2 391
Western Cape	**498**	499
KwaZulu-Natal	**407**	387
Eastern Cape	**85**	65
Mpumalanga	**75**	72
North West	**70**	79
Free State	**55**	70
Limpopo	**48**	50
Northern Cape	**3**	7
Namibia	**8**	7
UK	**7**	6
Kenya	**6**	
Zambia	**4**	3
USA	**3**	3



Hudaco

BUSINESS WITH AFRICA – 2018

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



KEY

- AUTOMOTIVE
- BATTERIES
- BEARINGS
- COMMUNICATIONS
- DIESEL ENGINES
- POWER TOOLS
- POWER TRANSMISSION
- SECURITY

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 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:

- 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.
- We target countries that are growing fast and have a relatively settled regulatory environment.
- The target zone is predominantly sub-Saharan countries strong in mining.
- 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.
- To ensure customer satisfaction and loyalty, the branches that we do have carry sufficient stock and offer comprehensive technical support.

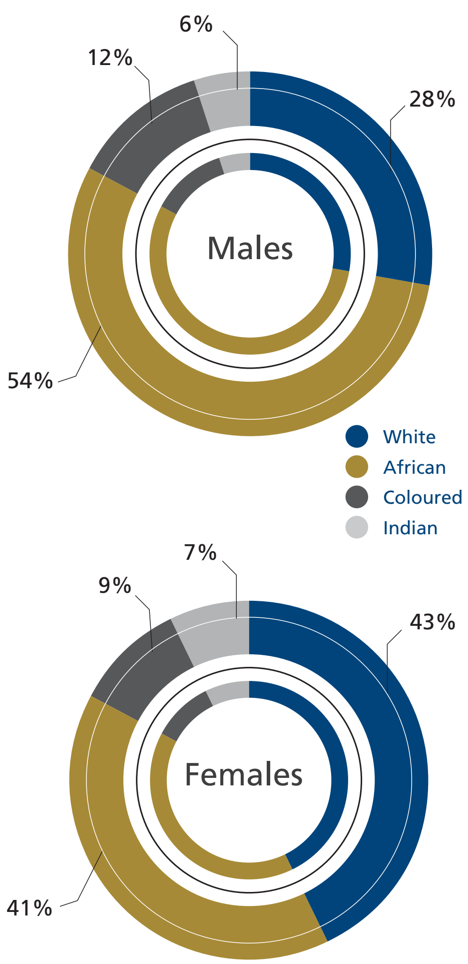
EMPLOYEE REPORT

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

	2018	2017
Total workforce	**4 074**	3 930
Less: Non-permanent employees	**342**	291
Total permanent workforce	**3 732**	3 639
Racial and gender profile		
White males	**773**	768
White females	**419**	417
African, Indian and Coloured males	**1 988**	1 926
African, Indian and Coloured females	**552**	528
Occupational level profile		
Top and senior management	**110**	116
Other management	**1 558**	1 582
Non-management	**2 064**	1 941
Management profile by gender		
Females	**465**	470
Males	**1 203**	1 228
Management profile by race		
White	**959**	966
African, Indian and Coloured	**709**	732
Non-management profile by gender		
Females	**506**	475
Males	**1 558**	1 466
Non-management profile by race		
White	**233**	219
African, Indian and Coloured	**1 831**	1 722
Disability profile by gender		
Female	**20**	16
Male	**21**	14
Disability profile by race		
White	**5**	9
African, Indian and Coloured	**36**	21



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 communicate 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, still 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 17 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 110 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 also concentrates 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 2018, seven senior managers of whom six were black, were sponsored by the group to study MBA and other master's degrees. Four of the seven completed their MBA studies in 2018.
- 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 learnerships 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 in 2018, the group again 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 have had success in bringing potential black leaders through the ranks and preparing them for future middle and senior management positions. The 2018 FLDP had 23 participants, of whom 18 were black, whilst the MLDP had 14 participants, of whom nine 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, 19 staff members successfully completed their courses in 2018.

Six of our businesses run SETA accredited apprenticeship programmes in terms of which participants are trained in various trades. In 2018, about 50 technical and semi-skilled employees participated in the programmes. An additional 140 abled learners and 40 learners with disabilities were recruited for learnership programmes run by the Maharishi Institute, ORT SA and Afrika Tikkun.

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 R11,8 million (2017: 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. All of the 23 participants are black. Every effort is made to absorb the graduates into 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 14 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 2018 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 2018

BLACK REPRESENTATION Target	BLACK REPRESENTATION Actual	Programme	LEVEL OF EMPLOYMENT
60%	71%	Leadership development (MBA/other/master's degrees)	Middle/senior management (MBA)
60%	71%	(MLDP) Managers leadership development programme	Middle/senior management
70%	83%	(FLDP) Future leaders development programme	Junior management
80%	100%	Engineering graduate development programme	Engineering trainees
80%	100%	Learnership programme for people with disabilities	External learners
80%	100%	Bursaries and general learnerships	Internal staff and dependants and unemployed learners

Succession planning

A formal performance management and succession policy is in place. We continued our executive development programme where we employ five young black MBA executive trainees 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 aligned.

Corporate ethics and governance

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.

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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 (0800 212 152) enables employees, or any other party, 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 interpersonal 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 11 trade unions that between them have 648 (2017: 596) 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 comprises two roughly equal 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 return on equity 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 230 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.
  - Retention-based 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 entitled to invest in Hudaco shares up to a maximum of 50% of their maximum potential 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 15 participants on this scheme.

Further information on remuneration is set out in the remuneration report commencing on page 41. 41

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 regularly 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 2018 shows no fatalities, 93 disabling injuries (2017: 70) and a disabling injury frequency rate (DIFR) per 200 000 hours worked of 2,57 (2017: 2,46). The injury rate is slightly higher compared to the previous year due to higher incidents reported in the manufacturing businesses.

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. No incidences of non-compliance, prosecution or fines relating to environmental performance or health and safety were reported during 2018.

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 R12 600 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. As from 1 January 2019, employees earning below the compulsory threshold have the option to join Discovery Primary Care. 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, 1 276 employees on the medical scheme during the year to November 2018. Annual contributions (excluding Vitality contributions) totalled R62,5 million, of which R26 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 30 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, 1 130 (2017: 1 024) Hudaco employees of whom 660 (2017: 624) are not on medical aid, took advantage of the opportunity and had a health risk assessment, while 697 (2017: 645) employees checked their HIV status. Altogether, 20 (2017: 13) employees tested positive for HIV, representing 2,8% of the employees tested, an increase of 0,8% 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 is consistent compared to the results in 2017. Without intervention, this could lead to the development of high blood pressure, high cholesterol and diabetes. Altogether, 26% of employees tested had elevated blood pressure, which showed an increase of 3% compared to 2017. 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.

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.

EMPLOYEE REPORT continued

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 R3,7 million (2017: R8,2 million) on various enterprise and supplier development initiatives during its 2018 financial year. Some of these included the following:

- Offering interest-free loans to qualifying black owned businesses;
- 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 and Bosworth 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 support a recycling initiative with black owned SMMEs; and
- Dosco also continued to support a mobile kitchen kiosk canteen facility owned by a black woman.

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 2018, Hudaco donated approximately R3,5 million (2017: R2,5 million) to a variety of socio-economic development initiatives.

Hudaco supports Madiba legacy

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, maintained a tradition of honouring Nelson Mandela Day.

This year, Hudaco's employees visited Diepsloot, Alexandra, the inner city of Johannesburg, Orange Farm and Mfuleni (Cape Town) where they handed out food parcels and toys, performed mock interviews for the Career Development Programme students and cooked a meal for more than 300 children in the Early Childhood Development Centre. Hudaco also contributed R250 000 towards this initiative.

Staff education programme

Hudaco Trading empowers current black employees, their spouses and their children by granting tertiary education and bursaries 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.

In 2018, 96 (2017: 90) students were granted bursaries, of whom 58 were women. Of these, 17 completed their qualifications as depicted in more detail below. The bursaries amounted to R3,5 million. For the 2019 academic year, 71 students have been identified for bursaries, of whom 43 are women.

Graduate	Description of relationship with Hudaco	Institution	Qualification obtained
Tivanani Baloyi	Employee at Astore Keymak	UNISA	BTech: Electro Mechanical
Naledi Malau	Employee at Ernest Lowe	University of Johannesburg	BTech: Mechanical Engineering
Vongani Mayimele	Employee at Bosworth	University of Johannesburg	BTech: Mechanical Engineering
Thandiwe Nakedi	Employee at Partquip	University of Johannesburg	BTech: Operations Management
Piet Nkulube	Employee at Hudaco head office	Johannesburg College	NDip: Mechanical Engineering
Quality Maluleke	Engineering trainee at FHS	University of Johannesburg	BTech: Mechanical Engineering
Amy Reynolds	Employee at Partquip	University of Stellenbosch	BA: International Studies
Angel Tivani	Employee at FHS	University of Johannesburg	BTech: Electrical Engineering
Blessing Yende	Employee at Varispeed	Vaal University of Technology	BTech: Electrical Engineering
Martin Mogale	Mother working for Elvey	UNISA	BCom Accounting
Tshivhase Nyandoro	Father working for Partquip	University of Johannesburg	NDip: Logistics Management
Sbusiso Ngubane	Mother working for Bearings International	Boston College	NDip: Financial Accounting
Nelly Baker	Mother working for SS Telecoms	Rosebank College	NDip: Business Management
Ndalasi Philisiwe	Employee at Three-D Agencies	Boston College	NDip: HR/Business Administration
Gosiame Mahaule	Father working for Belting Supply Services	University of Limpopo	BA: Criminology and Psychology
Janine Yon	Employee at Hudaco head office	MANCOSA	National Higher Certificate in Human Resources Management
Refiloe Solomon	Employee at Bearings International	Tshwane University of Technology	BTech: Tourism Management

FLDP and MLDP students 2018

EMPLOYEE REPORT continued

Hudaco executive development programme

During 2014, Hudaco implemented an executive development programme with a view to exposing black employees to different areas of the group's business and fast-tracking them to fill senior management positions within the group. The 2018 participants, who are all engineers and hold MBA qualifications, are featured below:

Sabelo Mkhwanazi
Group SHEQ manager
Head Office

Patrick Nkomo
Senior manager special projects
Bosworth

Hopewell Sibanda
Senior manager special projects
Bearings International

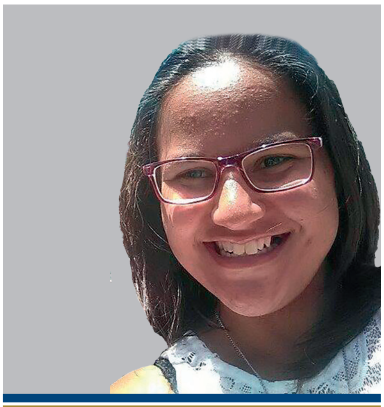
Dineo Matsunyane
Senior manager special projects
Ernest Lowe

Mpumelelo Zulu
Senior manager special projects
Partquip

Thembi Skhosana
Senior manager special projects
Bearings International

Bursary students

Amy Reynolds
BA: International Studies



Dear Hudaco

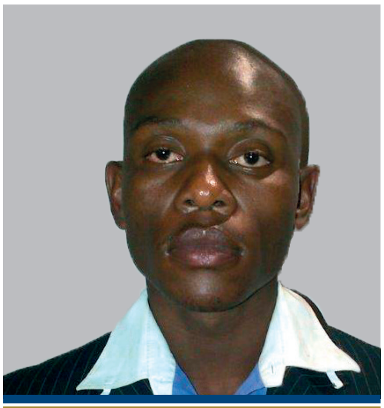
Thank you, not just for your financial and moral support but also the opportunity to be exposed to *academia*.

Hudaco enabled me to study towards a three year degree (BA International Studies) at the University of Stellenbosch, enabling me to associate with people from different walks of life and to broaden my own perspective on the world.

Because of Hudaco I have grown into an informed, educated individual who fully understands what the late President Nelson Mandela meant when he said: *"Education is the most powerful weapon you can use to change the world"*.

It has been an honour and a privilege to have been a recipient of a bursary from Hudaco!

Tivanani Baloyi
BTech: Electro Mechanical



Dear Hudaco

I was very fortunate to have been a recipient of a Hudaco bursary, which enabled me to finish my BTech (Mechanical Engineering) degree through UNISA.

The bursary assisted me to concentrate on my studies without worrying about finances – it enabled me to move one step closer to my goal and has inspired me to help others.

Gosiame Mohaule
BA: Criminology and Psychology

Dear Hudaco

In 2016, I was extremely lucky in being awarded a Hudaco bursary to study at the University of Limpopo towards achieving my degree in BA (Criminology and Psychology).

The bursary covered tuition fees, accommodation and meals.
I never wanted for anything resulting in me being able to focus totally on my studies and enabling me to obtain nine distinctions. I also qualified to continue with my honours degree.

I am especially grateful to Jonny Masinga, Hudaco's transformation and human resources executive, for his moral support throughout my studies.

AUDITED ANNUAL FINANCIAL STATEMENTS

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 30 to 40.

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 2018 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

31 January 2019

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 2018 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

31 January 2019

DIRECTORS' REPORT

Reporting period

The directors have pleasure in presenting their report for the company's financial year ended 30 November 2018. The annual financial statements for the year ended 30 November 2018 were authorised for issue in accordance with a resolution of the directors on 31 January 2019. 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 2018 were R381 million (2017: R397 million).

The results represent basic earnings per share of 1 202 cents (2017: 1 254 cents). Headline earnings per share were 1 289 cents (2017: 1 256 cents) and comparable earnings per share were 1 198 cents (2017: 1 251 cents).

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

Dividends

R million	**2018**	2017
Dividend number 62 of 380 cents per share declared on 1 February 2018	**130**	121
The record date was 2 March 2018 and the dividend was paid on 5 March 2018		
Dividend number 63 of 190 cents per share declared on 28 June 2018	**65**	61
The record date was 10 August 2018 and the dividend was paid on 13 August 2018		

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

On 31 January 2019 the directors declared dividend number 64 of 380 cents per share, being the final dividend in respect of the year ended 30 November 2018. The record date will be Friday, 1 March 2019 and the dividend will be paid on Monday, 4 March 2019.

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 Boltworld

With effect from 1 June 2018 Hudaco acquired the trading assets and liabilities of Boltworld, as a bolt-on operation to the FTS business of Rutherford, an existing division of Hudaco selling rivets and a range of other industrial fasteners. Boltworld is a distributor of industrial fasteners selling to fastener retailers, hardware stores, building supply operations, steel merchants and selected end-users.

The purchase consideration of R105 million was settled as follows: an initial amount of R80 million was paid in cash on 1 June 2018 and the balance of R25 million was paid on 4 September 2018.

Acquisition of certain trading assets of Secequip (TPA Security Distributors)

With effect from 1 September 2018 Hudaco acquired the fixed assets, trading inventory, customer and supplier lists, trading contracts and the workforce of Secequip. This business is a distributor of security and surveillance products, particularly the Texecom brand. It will initially trade separately from Elvey Security Technologies, an existing division of Hudaco, but the back offices of the two businesses will be integrated to achieve synergies.

The purchase consideration of R31 million was paid on 14 September 2018.

Authority to buy back shares

At the forthcoming annual general meeting in March 2019, 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 2018 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 20 and 21 of the integrated report.

During the 2018 financial year the directorate underwent the following changes: Royden Vice, who joined the board in 2007 and became its chairman in 2008, retired on 5 April 2018. Stephen Connelly succeeded him as chairman and Daisy Naidoo assumed the role of lead independent director. During October 2018, the board appointed Louis Meiring as executive director with effect from 14 January 2019. He is required to retire at the forthcoming annual general meeting on 19 March 2019, but is eligible for re-election.

In terms of the company's memorandum of incorporation, Graham Dunford and Daisy Naidoo are required to retire by rotation at the forthcoming annual general meeting.

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

During 2018, Daisy Naidoo joined the nomination committee and Nyami Mandindi 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 performance-based Hudaco share appreciation bonus scheme and retention-based 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 46 to 49.

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 46 to 49 and non-executive directors' remuneration on page 54.

Information on the executive directors' service agreements is set out on page 45.

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 2018 unutilised borrowing facilities amounted to R935 million (2017: R724 million).

DIRECTORS' REPORT continued

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 2018, which appear on pages 81 to 118, were approved by the board on 31 January 2019 and are signed on its behalf by:

SJ Connelly
Chairman

GR Dunford
Chief executive

31 January 2019

INDEPENDENT AUDITOR'S REPORT

To the shareholders of Hudaco Industries Limited

Report on the audit of the consolidated and separate financial statements

Opinion

We have audited the consolidated and separate financial statements of Hudaco Industries Limited (the group and company) set out on pages 88 to 118, which comprise the consolidated and separate statements of financial position as at 30 November 2018, and the consolidated and separate statements of comprehensive income, the consolidated and separate statements of changes in equity and the consolidated and separate statements of cash flows for the year then ended, and notes to the consolidated and separate 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 2018, 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 under 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 and company 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 30% of total assets as at 30 November 2018, 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 R25 million to R1 505 million as a result of acquisitions in the current financial year of R58 million, net of impairment. Aggregate impairment losses of R33 million were recognised with respect to the goodwill allocated to two of the group's cash-generating units 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 two 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, the liabilities assumed and any remaining non-controlling interest. • recognition and measurement of goodwill or a gain from a bargain purchase. The transactions involved significant management judgement with regard to the purchase price allocation, including the identification and valuation of intangible assets not previously recognised. Accordingly, the acquisitions have 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 33 years.

Grant Thornton

Grant Thornton
Registered Auditors
Practice number: 903485E

VR de Villiers
Partner
Registered Auditor
Chartered Accountant (SA)

31 January 2019

Wanderers Office Park
52 Corlett Drive
Illovo, 2196

GROUP STATEMENT OF COMPREHENSIVE INCOME

for the year ended 30 November 2018

R000	Notes	2018	2017
Turnover		**6 381 008**	5 901 594
Ongoing operations		**5 967 003**	5 784 179
Operations acquired after December 2016		**414 005**	117 415
Cost of sales		**4 059 851**	3 704 047
Gross profit		**2 321 157**	2 197 547
Operating expenses	5	**1 665 682**	1 521 510
Operating profit	5	**655 475**	676 037
Ongoing operations		**589 146**	659 756
Operations acquired after December 2016		**66 329**	16 281
Impairment of goodwill and intangible assets	12, 13	**(33 750)**	
Adjustment to fair value of amounts due to vendors of businesses acquired	6	**11 074**	(20 480)*
Profit before interest		**632 799**	655 557
Finance costs		**91 119**	80 847*
Profit before taxation		**541 680**	574 710
Taxation	8	**144 600**	155 996
Profit after taxation		**397 080**	418 714
Equity-accounted income from joint venture	11	**3 190**	3 440
Profit for the year		**400 270**	422 154
Other comprehensive income (loss) that will subsequently be reclassified to profit and loss		**2 950**	(2 403)
Loss on fair value of cash flow hedges – current year		**(3 442)**	(3 973)
Adjustments for amounts transferred to the initial cost of inventory	15	**3 973**	4 235
Tax effect of the above		**(149)**	1 112
Exchange gain (loss) on translation of foreign operations		**2 568**	(3 777)
Total comprehensive income for the year		**403 220**	419 751
Profit attributable to:			
– Equity holders of the parent		**380 515**	396 849
– Non-controlling shareholders	17.7	**19 755**	25 305
		400 270	422 154
Total comprehensive income attributable to:			
– Equity holders of the parent		**383 153**	394 841
– Non-controlling shareholders	17.7	**20 067**	24 910
		403 220	419 751

** Interest imputed on amounts due to vendors in 2017 has been reclassified from finance costs to adjustment to fair value of amounts due to vendors of businesses acquired – refer note 6.*

	Notes	2018	2017
Basic earnings per share (cents)	9	**1 202**	1 254
Diluted earnings per share (cents)	9	**1 173**	1 241

GROUP STATEMENT OF FINANCIAL POSITION
at 30 November 2018

R000	Notes	2018	2017
ASSETS			
Non-current assets		**1 874 882**	1 844 549
Property, plant and equipment	10	**277 070**	270 241
Investment in joint venture	11	**8 802**	9 575
Goodwill	12	**1 504 743**	1 480 061
Intangible assets	13	**48 605**	70 478
Deferred taxation	14	**35 662**	14 194
Current assets		**3 166 245**	2 776 235
Inventories	15	**1 821 961**	1 537 934
Trade and other receivables	16	**1 277 581**	1 155 533
Taxation		**4 012**	1 715
Bank deposits and balances		**62 691**	81 053
TOTAL ASSETS		**5 041 127**	4 620 784
EQUITY AND LIABILITIES			
Equity		**2 578 998**	2 376 597
Equity holders of the parent		**2 508 677**	2 295 143
Non-controlling interest	17.7	**70 321**	81 454
Non-current liabilities		**1 124 096**	890 297
Amounts due to bankers	18.1	**1 014 372**	675 000
Amounts due to vendors of businesses acquired	18.2	**108 899**	214 573
Deferred taxation	14	**825**	724
Current liabilities		**1 338 033**	1 353 890
Trade and other payables	19	**989 355**	942 714
Bank overdraft		**211 425**	266 324
Amounts due to vendors of businesses acquired	18.2	**104 592**	117 413
Taxation		**32 661**	27 439
TOTAL EQUITY AND LIABILITIES		**5 041 127**	4 620 784

GROUP STATEMENT OF CASH FLOWS
for the year ended 30 November 2018

R000	Notes	2018	2017
Cash flow from operating activities			
Operating profit		**655 475**	676 037
Adjusted for:			
Equity-settled share-based payments	17.5	**28 377**	20 942
Depreciation and (profit) loss on disposal of property, plant and equipment		**47 118**	47 266
Amortisation of intangible assets	13	**29 645**	27 794
Increase in working capital	22.1	**(292 203)**	(61 130)
Cash generated from operations		**468 412**	710 909
Taxation paid	22.2	**(164 326)**	(130 890)
Net cash from operating activities		**304 086**	580 019
Cash flow from investing activities			
Additions to property, plant and equipment	10	**(56 202)**	(52 198)
Proceeds from disposal of property, plant and equipment		**5 009**	5 030
Acquisition of businesses	20	**(134 561)**	(129 856)
(Increase) decrease in loan to joint venture	11	**(37)**	565
Dividend received from joint venture	11	**4 000**	
Payments to vendors of businesses acquired	22.3	**(107 421)**	(80 748)
Net cash from investing activities		**(289 212)**	(257 207)
Cash flow from financing activities			
Increase (decrease) in non-current amounts due to bankers	22.4	**339 372**	(35 000)
Share-based payments settled		**(17 615)**	(16 091)
Finance costs paid	22.5	**(91 119)**	(80 847)
Dividends paid	22.6	**(211 581)**	(177 405)
Net cash from financing activities		**19 057**	(309 343)
Decrease in net bank overdraft		**33 931**	13 469
Foreign exchange translation gain (loss)		**2 606**	(3 759)
Net bank overdraft at beginning of the year		**(185 271)**	(194 981)
Net bank overdraft at end of the year	22.7	**(148 734)**	(185 271)

GROUP STATEMENT OF CHANGES IN EQUITY

for the year ended 30 November 2018

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 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
Balance at 1 December 2017	**3 415**	**51 533**	**78 032**	**2 180 869**	**2 313 849**	**81 454**	**2 395 303**
Comprehensive income for the year			**2 638**	**380 515**	**383 153**	**20 067**	**403 220**
Movement in equity compensation reserve			**17 431**	**(6 669)**	**10 762**		**10 762**
Dividends (note 21)				**(180 381)**	**(180 381)**	**(31 200)**	**(211 581)**
Balance at 30 November 2018	**3 415**	**51 533**	**98 101**	**2 374 334**	**2 527 383**	**70 321**	**2 597 704**
Less: Shares held by subsidiary company	**(251)**		**(41)**	**(18 414)**	**(18 706)**		**(18 706)**
Net balance at 30 November 2018	**3 164**	**51 533**	**98 060**	**2 355 920**	**2 508 677**	**70 321**	**2 578 998**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS
for the year ended 30 November 2018

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 2018

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.
- Financial liabilities – amounts due to vendors of businesses acquired are measured at fair value through profit and loss.
- 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 in 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 and all tangible assets for indicators of 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, Kenya, 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.

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 22 and 23.

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 except for adopting amendments to IFRS 12: *Disclosure of Interest in Other Entities*; IAS 7: *Statement of Cash Flows* and IAS 12: *Income Taxes*. The only material impact identified on the financial statements relates to additional disclosure in terms of IAS 7.

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 R708 million using the incremental interest rate of the group of 8,4%. The current year's profit after tax attributable to equity holders of the parent would have reduced by approximately R6,9 million.	1 January 2019

R000	2018	2017

5. Operating profit

	2018	2017
Operating expenses comprise:		
Staff costs	**1 198 713**	1 076 114
Property rentals under operating leases	**125 333**	112 035
Depreciation	**48 889**	46 074
Amortisation	**29 645**	27 794
(Profit) loss on disposal of property, plant and equipment	**(1 771)**	1 192
Acquisition costs – new businesses	**995**	914
Other expenses – including non-executive directors' fees	**456 751**	399 986
Allocated to cost of sales	**(192 873)**	(142 599)
	1 665 682	1 521 510

6. Adjustment to fair value of amounts due to vendors of businesses acquired

	2018	2017
Adjustment to estimated capital amounts due	**34 152**	2 193
Adjustment for time-value of money	**(23 078)**	(22 673)
	11 074	(20 480)

The time-value of money effect on the fair value of financial liabilities has been removed from finance costs and reclassified as part of the fair value adjustment on amounts due to vendors of businesses acquired so as to better accord with paragraph 58 of IFRS 3.

7. Auditor's remuneration

	2018	2017
Audit fees – current year	**8 684**	8 772
Fees for other services		38
	8 684	8 810

8. Taxation

8.1 Taxation comprises

	2018	2017
South African normal taxation		
Current year	**166 795**	156 165
Prior years (over) under provision	**(247)**	606
Deferred taxation		
Current year	**(22 768)**	(1 367)
Prior years under (over) provision	**117**	(412)
Foreign normal taxation	**703**	1 004
Total taxation	**144 600**	155 996

8.2 Reconciliation of rate of taxation

	%	%
Normal rate	**28,0**	28,0
Impairment of goodwill	**1,7**	
Adjustment to capital amounts due to vendors	**(1,8)**	(0,1)
Learnership allowances	**(0,8)**	(0,1)
Other	**(0,4)**	(0,7)
Effective rate of taxation	**26,7**	27,1

R000	2018	2017

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

Calculation of headline earnings		
Profit attributable to equity holders of the parent	**380 515**	396 849
Adjusted for:		
Impairment of goodwill and intangible assets	**33 750**	
Tax effect	**(124)**	
Non-controlling interest	**(5 044)**	
(Profit) loss on disposal of plant and equipment	**(1 771)**	1 192
Tax effect	**496**	(334)
Non-controlling interest	**192**	(111)
Headline earnings	**408 014**	397 596
Calculation of comparable earnings		
Headline earnings as per above	**408 014**	397 596
Adjusted for:		
Fair value adjustment on capital amounts due to vendors of businesses acquired	**(34 152)**	(2 193)
Non-controlling interest	**5 124**	328
Comparable earnings	**378 986**	395 731
Earnings per share (cents)		
Basic	**1 202**	1 254
Diluted basic	**1 173**	1 241
Headline	**1 289**	1 256
Diluted headline	**1 258**	1 243
Comparable	**1 198**	1 251
Diluted comparable	**1 168**	1 237

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 (2017: 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 32 435 293 (2017: 31 981 071) shares, being the weighted average number of shares in issue of 31 645 703 plus 789 590 (2017: 335 368) deemed free issue shares. This assumes that any bonus due in terms of the share appreciation bonus scheme and share matching scheme is settled in shares at the year end price of R142,00 (2017: R136,00) per share. The number of deemed free issue shares is the difference between the number of shares assumed to have been taken up and the number of shares that could have been acquired with such proceeds less the future IFRS 2 charge on the unvested rights, at the average market price per share.

10. Property, plant and equipment

R000	Freehold land	Buildings	Plant	Computers	Motor vehicles	Other assets	2018 Total
Cost							
Opening balance	**19 037**	**73 068**	**194 709**	**129 887**	**123 513**	**63 707**	**603 921**
Exchange differences			**(75)**	**(17)**	**(64)**	**(12)**	**(168)**
Acquisition of businesses			**242**	**651**	**1 099**	**800**	**2 792**
Additions			**12 354**	**11 515**	**17 901**	**14 432**	**56 202**
Disposals			**(2 231)**	**(19 494)**	**(13 676)**	**(6 192)**	**(41 593)**
Closing balance	**19 037**	**73 068**	**204 999**	**122 542**	**128 773**	**72 735**	**621 154**
Accumulated depreciation							
Opening balance		**12 581**	**122 519**	**85 213**	**69 590**	**43 777**	**333 680**
Exchange differences			**(64)**	**(16)**	**(43)**	**(7)**	**(130)**
Depreciation for the year		**1 584**	**13 089**	**13 103**	**13 895**	**7 218**	**48 889**
Disposals			**(1 726)**	**(19 213)**	**(11 435)**	**(5 981)**	**(38 355)**
Closing balance		**14 165**	**133 818**	**79 087**	**72 007**	**45 007**	**344 084**
Net book value	**19 037**	**58 903**	**71 181**	**43 455**	**56 766**	**27 728**	**277 070**

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
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.

R000	2018	2017
Total net assets of Ironman 4X4 Africa RF (Pty) Ltd	**17 589**	19 208
Proportion of ownership interests held by the group	**50%**	50%
Ownership interests held by the group	**8 794**	9 604
Loan account	**8**	(29)
Carrying amount of investment in joint venture	**8 802**	9 575
Carrying amount of investment in joint venture at the beginning of the year	**9 575**	6 700
Attributable income for the year	**3 190**	3 440
Dividend received	**(4 000)**	
Movement in loan account	**37**	(565)
Carrying amount of investment in joint venture at the end of the year	**8 802**	9 575

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

R000	2018	2017

12. Goodwill

12.1 Goodwill comprises:

Goodwill at cost	**1 560 140**	1 502 150
Accumulated impairment	**(55 397)**	(22 089)
	1 504 743	1 480 061

12.2 Movement for the year

Balance at beginning of the year	**1 480 061**	1 242 736
Acquisitions during the year	**57 990**	237 325
Impairments during the year	**(33 308)**	
	1 504 743	1 480 061

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**	157 838
Global Communications	**127 685**	127 685
Astore Keymak	**66 973**	66 973
Joseph Grieveson	**55 834**	55 834
FTS Boltworld	**51 971**	
The Dished End Company	**51 212**	51 212
Pentagon	**43 088**	43 088
Ambro Steel	**37 370**	37 370
Dosco Precision Hydraulics	**34 937**	34 937
Powermite	**26 589**	26 589
Hydraulic Engineering Repair Services	**22 850**	22 850
Brewtech Engineering	**22 135**	33 699
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**	6 460
TPA Security Distributors	**6 019**	
SS Telecoms		21 744
Other	**8 874**	8 874
	1 504 743	1 480 061

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.

12. Goodwill continued

12.2 Movement for the year 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 16,2% (2017: 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.

Impairment losses of R33,3 million (2017: nil) were recognised during the current year. The recoverable amounts determined for the unimpaired goodwill comfortably, and in most cases, far exceeded the carrying values thereof.

During the year, SS Telecoms, a separate cash-generating unit providing voice and data solutions, suffered losses due to a change in the market as well as the loss of an important customer. All its goodwill, amounting to R21,7 million, was impaired as was R0,4 million of customer relationships, part of the intangible assets identified at the time of acquisition.

In addition, Brewtech, a cash-generating unit involved in the manufacture and distribution of components used in conveyors, was negatively affected by the loss of revenue from a major customer. As a result, the goodwill was impaired by R11,6 million.

13. Intangible assets

R000	**Customer relationships**	**Trade names**	**Supplier contracts**	**2018 Total**
Cost				
Opening balance	**171 696**	**57 235**	**9 287**	**238 218**
Acquisition of businesses	**7 260**	**954**		**8 214**
Closing balance	**178 956**	**58 189**	**9 287**	**246 432**
Accumulated amortisation				
Opening balance	**111 748**	**36 206**	**9 287**	**157 241**
Amortisation for the year	**23 715**	**5 930**		**29 645**
Closing balance	**135 463**	**42 136**	**9 287**	**186 886**
Accumulated impairment				
Opening balance	**6 083**	**4 416**		**10 499**
Impairments during the year	**442**			**442**
Closing balance	**6 525**	**4 416**		**10 941**
Net book value	**36 968**	**11 637**		**48 605**

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
The remaining expected useful lives are set within these ranges (years):	3 – 7	1 – 10	4	

Intangible assets were acquired as part of the acquisition of businesses. The costs attributable to these assets and the annual impairment reviews 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	2018	2017

14. Deferred taxation

14.1 Deferred taxation comprises temporary differences arising from:

R000	2018	2017
Capital allowances	**(25 975)**	(24 215)
Amounts due to vendors	**(4 752)**	(11 243)
Intangible assets	**(13 811)**	(19 935)
Doubtful debt allowances	**7 241**	6 106
Leave pay and bonus accruals	**60 004**	49 596
Calculated tax loss	**5 096**	4 198
Fair value of cash flow hedges	**963**	1 112
Other	**6 071**	7 851
Net deferred taxation asset	**34 837**	13 470
Deferred taxation is reflected on the group statement of financial position as follows:		
Deferred tax assets	**35 662**	14 194
Deferred tax liabilities	**(825)**	(724)
	34 837	13 470

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

14.2 Movement for the year

R000	2018	2017
Balance at beginning of the year	**13 470**	26 526
Arising on acquisitions during the year		
Amounts due to vendors	**(93)**	(8 830)
Intangible assets	**(2 299)**	(8 527)
Doubtful debt allowances		146
Leave pay and bonus accruals	**557**	1 264
Other	**700**	
Raised (utilised) during the year (including prior years under/over provision)		
Capital allowances	**(1 760)**	(102)
Amounts due to vendors	**6 584**	6 348
Intangible assets	**8 423**	7 783
Doubtful debt allowances	**1 135**	(764)
Leave pay and bonus accruals	**9 851**	9 069
Calculated tax loss	**898**	(33 169)
Fair value of cash flow hedges	**(149)**	1 112
Other	**(2 480)**	12 614
	34 837	13 470

15. Inventories

R000	2018	2017
Merchandise	**1 727 336**	1 479 150
Raw materials and components	**43 750**	27 267
Work in progress	**50 875**	31 517
	1 821 961	1 537 934
Cost of inventory recognised as an expense in cost of sales	**3 866 978**	3 571 448
Inventory that is expected to be sold after more than 12 months	**134 000**	112 000
Write-down of inventory to net realisable value and losses of inventory	**9 371**	9 209
Amounts removed during the year from the cash flow hedging reserve increasing the initial cost of inventories	**3 973**	4 235

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

R000	2018	2017

16. Trade and other receivables

Trade receivables	**1 163 174**	1 028 297
Allowance for doubtful receivables	**(32 154)**	(25 937)
Other receivables	**116 682**	128 283
Pre-payments	**29 879**	24 890
	1 277 581	1 155 533
Allowance for doubtful receivables:		
Balance at beginning of the year	**25 937**	28 652
Additional allowance charged to profit	**12 495**	7 648
Allowance reversed to profit	**(236)**	(2 934)
Allowance utilised	**(6 042)**	(7 950)
Acquisitions during the year		521
	32 154	25 937

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 R151 million (2017: R135 million) were past due but not impaired, being customers of whom there is no recent history of default and are aged as follows:

Less than 30 days since date due	**76 453**	61 238
Between 31 and 60 days	**23 561**	24 574
Between 61 and 90 days	**29 415**	11 291
More than 90 days	**21 573**	38 001
	151 002	135 104

17. Shareholders' equity

17.1 Authorised share capital

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

17.2 Issued share capital

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

17.3 Unissued shares

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

17.4 Retained income

Income retained in:		
Company	**188 606**	188 384
Subsidiary companies	**2 159 053**	1 965 000
Joint venture	**8 261**	9 071
	2 355 920	2 162 455

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.

000	Number of shares 2018	2017
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 currently available to be granted in terms of the share appreciation bonus scheme in the future	**4 003**(2)	4 003
Shares potentially required to meet obligations in terms of the share appreciation bonus scheme(1)	**966**	563
Shares available prior to passing of proposed resolution to reduce this number	**3 037**	3 440

(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. Group policy is not to issue new shares but to acquire them on the open market.

(2) It is proposed that the number of shares authorised in terms of the share appreciation bonus scheme be reduced to 1 582 285, being 5% of the issued share capital excluding treasury shares. A resolution to this effect will be put to members at the forthcoming annual general meeting.

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)	
	2018	2017	**2018**	2017
Rights not taken up at beginning of the year	**10 762**	10 159	**3 541**	3 129
Rights granted during the year	**14 951**	12 510	**751**	699
Forfeited during the year	**(10 753)**	(10 356)	**(12)**	(25)
Rights exercised during the year	**(9 709)**	(8 269)	**(352)**	(262)
Rights not taken up at end of the year	**11 657**	10 762	**3 928**	3 541
Already exercisable	**9 942**	9 457	**1 022**	728
First exercisable in the financial years ending:				
November 2018		10 365		651
November 2019	**10 549**	10 552	**747**	750
November 2020	**11 723**	11 722	**697**	700
November 2021	**12 603**	11 365	**733**	482
November 2022	**13 781**	12 510	**480**	230
November 2023	**14 951**		**249**	
	11 657	10 762	**3 928**	3 541

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 and 2018 the weighting is 70% on return on equity and 30% on ceps growth.

17. Shareholders' equity continued

17.5 Employee share-based remuneration schemes 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)	
	2018	2017	**2018**	2017
Rights not taken up at beginning of the year	**11 390**	10 826	**215**	190
Rights granted during the year	**16 421**	13 845	**49**	40
Rights forfeited during the year		(11 181)		(7)
Rights exercised during the year	**(11 895)**	(10 386)	**(41)**	(8)
Rights not taken up at end of the year	**12 403**	11 390	**223**	215

134 875 of these shares are first exercisable in the financial year ending November 2019, 39 742 in the financial year ending November 2020 and the remaining 48 814 in the financial year ending November 2021.

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	**23 Jul 18**
Number of rights granted	578 500	276 333	277 534	405 433	464 250	932 080	710 300	787 420	698 950	**751 410**
Rights forfeited	(61 212)	(52 668)	(69 168)	(124 967)	(95 200)	(78 200)	(69 100)	(75 900)	(34 230)	
Rights taken up	(517 288)	(222 831)	(175 698)	(124 132)	(144 570)	(175 057)	(63 916)			
Rights still outstanding		834	32 668	156 334	224 480	678 823	577 284	711 520	664 720	**751 410**
Vested rights		834	32 668	156 334	224 480	410 966	161 950			
Unvested rights						267 827	415 334	711 520	664 720	**751 410**
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	**149,51**
Share price at grant date (R)	55,00	68,99	80,85	108,49	90,30	91,92	129,63	104,21	127,40	**150,00**
Expected volatility (%)[(1)]	28	27	34	25	21	21	21	28	28	**27**
Expected dividend yield (%)	4,0	6,0	5,4	5,2	4,7	4,6	4,3	4,8	4,7	**4,1**
Risk-free rate (%)	8,6	7,3	7,1	5,9	7,4	7,6	7,8	8,1	7,7	**8,1**
Vesting period (years)	3 to 5	3 to 5	3 to 5	3 to 5	3 to 5	3 to 5	3 to 5	3 to 5	3 to 5	**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	**45,41**

Share matching scheme

Granted during	2015	2016	2017	**2018**
Number of rights granted	43 848	137 832	39 742	**48 814**
Number of rights forfeited	(3 215)	(2 957)		
Number of rights exercised	(40 633)			
Unvested rights		134 875	39 742	**48 814**
Share price at grant date (R)	117,77	109,50	138,45	**164,21**
Expected volatility (%)[(1)]	21	29	28	**27**
Expected dividend yield (%)	4,6	3,7	4,7	**4,1**
Risk-free rate (%)	6,2	8,1	7,7	**8,1**
Vesting period (years)	3	3	3	**3**
Estimated fair value per right (R)	103,37	94,17	124,60	**147,79**

(1) 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	**2018**	2017
Employee share-based payment expense included in operating profit arising from:		
Share appreciation scheme	**20 779**	14 424
Share matching scheme	**7 598**	6 518
	28 377	20 942

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 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
Balance at 30 November 2017	**332**	**(2 424)**	**(3 660)**	**46 458**	**37 326**	**78 032**
Other comprehensive income for the year		**360**	**2 278**			**2 638**
Increase in equity compensation reserves				**17 431**		**17 431**
Balance at 30 November 2018	**332**	**(2 064)**	**(1 382)**	**63 889**	**37 326**	**98 101**
Less: Shares held by subsidiary company	**(41)**					**(41)**
Net balance at 30 November 2018	**291**	**(2 064)**	**(1 382)**	**63 889**	**37 326**	**98 060**

17.7 Non-controlling interest

	Hudaco Trading (Pty) Ltd		**DD Power Holdings (Pty) Ltd**		**Total**	
R000	**2018**	2017	**2018**	2017	**2018**	2017
Proportion of ownership held by non-controlling interests	**15%**	15%	**30%**	30%		
Turnover	**6 365 213**	5 874 398	**255 178**	247 987	**6 620 391**	6 122 385
Profit after tax for the year	**71 853**	109 042	**29 924**	29 827	**101 777**	138 869
Profit allocated to non-controlling interests for the year	**10 778**	16 357	**8 977**	8 948	**19 775**	25 305
Dividends paid to non-controlling interests for the year	**(15 000)**		**(16 200)**	(8 100)	**(31 200)**	(8 100)
Total comprehensive income for the year allocated to non-controlling interests	**11 349**	16 031	**8 718**	8 879	**20 067**	24 910
Accumulated equity allocated to non-controlling interests	**33 036**	36 687	**37 285**	44 767	**70 321**	81 454
Cash flow from operating activities	**362 468**	619 040	**13 385**	60 201	**375 853**	679 241
Non-current assets	**3 108 890**	3 387 318	**6 788**	7 954	**3 115 678**	3 395 272
Current assets	**3 047 487**	2 650 583	**185 454**	230 420	**3 232 942**	2 881 003
Non-current liabilities	**4 247 443**	910 766	**849**	826	**4 248 292**	911 592
Current liabilities	**2 120 586**	4 882 552	**67 220**	84 830	**2 187 806**	4 967 382

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

R000	2018	2017
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 1,55%.		
– FirstRand Bank Limited	**300 000**	200 000
– 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%.	**460 000**	460 000
Unsecured borrowings on a R500 million evergreen revolving credit facility from Nedbank Limited. The facility bears interest at a rate of JIBAR plus 1,55%.	**239 372**	
For each of the facilities, the bank has the right to call it up on 367 days' notice and 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.		
	1 014 372	675 000
18.2 Amounts due to vendors of businesses acquired		
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 R153,3 million) is subject to adjustment based on earnings of the business, up to July 2020	**111 802**	129 123
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 R134,9 million) is subject to adjustment based on earnings of the business, up to April 2019	**64 455**	131 357
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 R41,1 million) is subject to adjustment based on earnings of the business, up to April 2020	**31 684**	31 157
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 R5,9 million) is subject to adjustment based on earnings of the business, up to November 2019	**5 495**	5 819
Estimated amount due to the vendors of Brewtech Engineering acquired in 2016	**55**	4 644
Estimated amount due to the vendors of Hydraulic Engineering Repair Services acquired in 2016		16 951
Estimated amount due to the vendors of SS Telecoms acquired in 2017		7 998
Estimated amount due to the vendors of All-Trade acquired in 2016		3 974
Estimated amount due to the vendors of Sanderson Special Steels acquired in 2015		963
Total fair value of liabilities	**213 491**	331 986
Less: Payable within 12 months	**104 592**	117 413
	108 899	214 573
These liabilities are estimated based on available information. Any adjustment is debited or credited to profit when the adjustment is determined.		
19. Trade and other payables		
Trade payables	**693 856**	643 498
Fair value of forward exchange contracts	**31 645**	5 071
Other payables	**263 854**	294 145
	989 355	942 714
Included in other payables are payroll and other accruals.		

20. Acquisition of businesses

R000	Boltworld	TPA Security Distributors	Total 2018	Total 2017
Effective date of control	1 Jun 18	1 Sept 18		
Fair value of net assets acquired:				
Plant and equipment	2 160	632	**2 792**	14 251
Goodwill	51 971	6 019	**57 990**	237 325
Intangible assets	7 034	1 180	**8 214**	30 451
Bank balances	1 213		**1 213**	12 865
Inventories	43 288	23 088	**66 376**	62 496
Trade and other receivables	15 928		**15 928**	49 017
Trade and other payables	(14 770)	(834)	**(15 604)**	(78 317)
Taxation				(1 046)
Deferred taxation	(1 738)	603	**(1 135)**	(15 947)
Net operating assets acquired	105 086	30 688	**135 774**	311 095
Bank balances assumed	(1 213)		**(1 213)**	(12 865)
Balance owed to vendors at acquisition date				(168 374)
Net cash outflow on acquisitions	103 873	30 688	**134 561**	129 856

	2018	2017
Profit after tax since acquisition date included in the consolidated results for the year	**4 405**	11 639
Turnover since acquisition date included in the consolidated results for the year	**99 034**	188 889
Group profit after tax had the business combinations been included for the entire year	**404 127**	429 910
Group turnover had the business combinations been included for the entire year	**6 528 709**	6 040 214

Refer to page 82 in the directors' report for further information.

21. Dividends

	2018	2017
Dividends paid to equity holders of the parent were:		
Dividend number 62 of 380 cents per share declared on 1 February 2018	**129 785**	121 246
The record date was 2 March 2018 and the dividend was paid on 5 March 2018		
Dividend number 63 of 190 cents per share declared on 28 June 2018	**64 892**	61 475
The record date was 10 August 2018 and the dividend was paid on 13 August 2018		
Dividends paid to subsidiary company	**(14 296)**	(13 416)
	180 381	169 305

On 31 January 2019 the directors declared dividend number 64 of 380 cents per share, being the final dividend in respect of the year ended 30 November 2018. The record date will be 1 March 2019 and the dividend will be paid on 4 March 2019. This dividend has not been included as a liability in these financial statements.

R000	2018	2017

22. Notes to the statement of cash flows

22.1 Increase in working capital

	2018	2017
(Increase) decrease in inventories	**(217 651)**	32 661
Amounts from cash flow hedging reserve allocated to initial value of inventories	**3 973**	4 235
Increase in trade and other receivables	**(106 120)**	(60 515)
Increase (decrease) in trade and other payables	**31 037**	(33 538)
Fair value of current year cash flow hedges included in working capital	**(3 442)**	(3 973)
	(292 203)	(61 130)

22.2 Taxation paid

	2018	2017
Net amounts (owed) paid in advance at beginning of the year	**(25 724)**	2 207
Current tax charge	**(166 795)**	(156 165)
Prior year over (under) provision	**247**	(606)
Foreign tax charge	**(703)**	(1 004)
Acquired during the year		(1 046)
Net amounts owed at end of the year	**28 649**	25 724
	(164 326)	(130 890)

22.3 Payments to vendors of businesses acquired

	2018	2017
Amounts owed at beginning of the year	**(331 986)**	(223 880)
Adjustment to fair value of amounts due to vendors of businesses acquired	**11 074**	(20 480)
Acquisitions during the year		(168 374)
Amounts owed at end of the year	**213 491**	331 986
	(107 421)	(80 748)

22.4 Increase (decrease) in non-current amounts due to bankers

	2018	2017
Advances taken up during the year	**589 372**	315 000
Repayments during the year	**(250 000)**	(350 000)
	339 372	(35 000)

22.5 Finance costs paid

	2018	2017
Finance costs on amounts due to bankers and other payables	**(91 119)**	(80 847)

22.6 Dividends paid

	2018	2017
To equity holders of the parent	**(180 381)**	(169 305)
To non-controlling shareholders	**(31 200)**	(8 100)
	(211 581)	(177 405)

22.7 Net bank overdraft

	2018	2017
Bank deposits and balances	**62 691**	81 053
Bank overdraft	**(211 425)**	(266 324)
	(148 734)	(185 271)

R000	2018	2017

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 3% to 10% 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:

R000	2018	2017
Within one year	**111 547**	98 219
Payable in second to fifth years	**173 229**	176 476
Payable thereafter	**15 153**	26 208
	299 929	300 903

23.2 Property, plant and equipment

The group has budgeted to spend R76 million to acquire property, plant and equipment in 2019, of which R10 million 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

R000	2018	2017
Financial assets by class:		
Trade receivables	**1 131 020**	1 002 360
Other receivables (excluding indirect taxes)	**104 607**	109 812
Bank deposits and balances	**62 691**	81 053
	1 298 318	1 193 225
Financial assets by category:		
Loans and receivables at amortised cost	**1 298 318**	1 193 225
	1 298 318	1 193 225
Financial liabilities by class:		
Amounts due to vendors of businesses acquired	**213 491**	331 986
Amounts due to bankers	**1 014 372**	675 000
Bank overdraft	**211 425**	266 324
Trade payables	**693 856**	643 498
Fair value of forward exchange contracts	**31 645**	5 071
Other payables (excluding payroll accruals and indirect taxes)	**118 728**	152 975
	2 283 517	2 074 854
Financial liabilities by category:		
Financial liabilities at amortised cost	**2 038 381**	1 737 797
Financial liabilities at fair value through profit and loss	**213 491**	331 986
Derivatives used for hedging at fair value	**31 645**	5 071
	2 283 517	2 074 854

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.

Amounts due to vendors of businesses acquired are recognised at fair value in the statement of financial position. The fair values are estimated by using a present value technique based on unobservable inputs regarding the future profitability of businesses acquired, which means they are classified as level 3 fair value measurements. The fair values are based on the best estimates of future profits at the time, discounted at fixed interest rates and are subject to maximums set contractually, both of which are disclosed in note 18.2. The accuracy of the estimate of future profitability is largely impacted by the duration of the earn-out periods remaining. The only two liabilities for which this is more than one year are amounts payable to the vendors of Eternity Technologies and The Dished End Company. Should the actual profitability eventually achieved by these two businesses be 10% lower than the current estimates, the fair values of the liability will decrease by R11,4 million, and if they are 10% higher they will increase by R11,4 million. Refer to note 22.3 for the reconciliation of the carrying amounts of this level 3 financial instrument.

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.

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 R25,2 million (2017: R25,7 million).

Cash flow hedges – at 30 November 2018 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	8,28	84 567	8,08	10 466
US Dollar	13,71	6 725	13,99	94 083
Australian Dollar	10,10	288	10,04	2 892
Pound Sterling	17,53	66	17,94	1 184
Euro	15,59	3 086	16,01	49 407
Total cost of contracts				158 032
Fair value – Rand equivalent of the above contracts at year end spot rates				154 590
Loss recognised directly in equity on import orders				3 442
Taxation				(963)
Attributable to non-controlling shareholders				(415)
Attributable to equity holders of the parent (note 17.6)*				2 064

* *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 %	2018 R000	2017 R000
Amounts due to bankers	2020	JIBAR plus premium	**1 014 372**	675 000

A change of 1% in the interest rate charged on non-current borrowings will affect profit after tax by approximately R7,3 million

(2017: R4,9 million) per year and profit attributable to equity holders of the parent by R6,2 million (2017: R4,1 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	2018	2017
Trade receivables	**1 131 020**	1 002 360
Other receivables (excluding indirect taxes)	**104 607**	109 812
Bank deposits and balances	**62 691**	81 053
	1 298 318	1 193 225

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 2018 were R935 million.

There is no restriction on borrowing powers in terms of the memorandum of incorporation and at 30 November 2018 the group's banking facilities substantially exceeded its forecast requirements for the forthcoming year.

The maturity profile of financial liabilities is as follows:

		Expected cash flows during the year ending	
R000	Total owing 2018	30 November 2019	30 November 2020
Amounts due to bankers	**1 014 372**	**85 370**	**1 014 372**
Amounts due to vendors of businesses acquired	**213 491**	**107 788**	**118 707**
Bank overdraft	**211 425**	**211 425**	
Trade payables	**693 856**	**693 856**	
Other payables (excluding payroll accruals and indirect taxes)	**118 728**	**118 728**	

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	2018	2017
Cash flow hedges (note 24.2.1)	**3 442**	3 973
Fair value hedges (on contracts of R406 million at year end spot rates)	**28 203**	1 098
	31 645	5 071

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 2018 it was 1,5 times (2017: 1,2 times).

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

In setting the maximum amount of unsubordinated debt the group would carry, the group's objective would also be to have net interest covered at least five times by operating profit; net interest being interest paid on debt less interest received. In 2018 it was

NOTES TO THE ANNUAL FINANCIAL STATEMENTS continued

for the year ended 30 November 2018

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 R58,5 million (2017: R55,0 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 2018

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

	Direct Share register (own name)		Indirect Held by associates	
	2018	2017	**2018**	2017
SJ Connelly	**274 139**	274 139	**1 680**	1 680
CV Amoils	**74 147**	60 934	**7 500**	7 500
GR Dunford	**174 599**	155 505	**647 212**	970 812
	522 885	490 578	**656 392**	979 992

The shareholdings above have not changed between 30 November 2018 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 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 46 to 49 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 out on pages 46 to 49 of the integrated report and non-executive directors' remuneration on page 54.

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	**2018**	2017
Compensation of key management personnel		
Short-term employee benefits	**28 201**	33 478
Value of long-term incentives awarded during the year	**14 134**	12 071
	42 335	45 549

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 R5,4 million (2017: R5,7 million).

between the market price at exercise date and the strike price amounting to R5,4 million (2017: R5,7 million).

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 46 to 49 of the integrated report.

Shareholdings of the directors are set out in note 26.

GR Dunford, chief executive of Hudaco, is an 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 R2 112 463 (2017: R1 955 983), Dosco Precision Hydraulics amounted to R1 613 900 (2017: R1 494 351), Gear Pump Manufacturing amounted to R1 966 856 (2017: R1 655 145) and Joseph Grieveson amounted to R2 872 979 (2017: R2 660 162). These leases expire on 31 January 2020, 31 March 2019, 31 August 2021 and 30 June 2021, 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	**2018**	2017	**2018**	2017	**2018**	2017	**2018**	2017
Statement of net income								
Turnover	**6 381**	5 902	**(20)**	(10)	**3 491**	3 051	**2 910**	2 861
– Ongoing operations	**5 967**	5 784	**(20)**	(10)	**3 128**	2 958	**2 859**	2 836
– Operations acquired after Dec 2016	**414**	118			**363**	93	**51**	25
EBITDA	**732**	751	**(51)**	(22)	**498**	461	**285**	312
Depreciation less recoupments	**47**	47	**2**	2	**15**	15	**30**	30
Amortisation of intangible assets	**30**	28			**21**	18	**9**	10
Operating profit	**655**	676	**(53)**	(24)	**462**	428	**246**	272
– Ongoing operations	**589**	660	**(53)**	(24)	**414**	419	**228**	265
– Operations acquired after Dec 2016	**66**	16			**48**	9	**18**	7
Impairment of goodwill and intangible assets	**(34)**				**(22)**		**(12)**	
Fair value adjustments to amounts due to vendors	**12**	(20)			**4**	(20)	**8**	
Profit before interest	**633**	656	**(53)**	(24)	**444**	408	**242**	272
Statement of financial position								
Property, plant and equipment	**277**	270			**86**	75	**191**	195
Investment in joint venture	**9**	9			**9**	9		
Goodwill	**1 505**	1 480			**877**	840	**628**	640
Intangible assets	**49**	70			**39**	52	**10**	18
Deferred taxation – net	**35**	13	**35**	18	**(5)**	(5)	**5**	
Inventories	**1 822**	1 538			**909**	726	**913**	812
Trade and other receivables	**1 278**	1 156	**31**	1	**704**	630	**543**	525
Trade and other payables	**(989)**	(943)	**(42)**	(11)	**(506)**	(499)	**(441)**	(433)
Taxation – net	**(29)**	(26)	**99**	120	**(89)**	(101)	**(39)**	(45)
Net operating assets	**3 957**	3 567	**123**	128	**2 024**	1 727	**1 810**	1 712
Additional information								
Average net operating assets	**3 781**	3 411	**25**	109	**1 935**	1 592	**1 821**	1 710
Capital expenditure	**56**	52			**24**	20	**32**	32
Operating profit margin (%)	**10,3**	11,5			**13,2**	14,0	**8,4**	9,5
Return on average net operating assets (%)	**17,6**	19,8			**23,9**	26,9	**13,5**	15,9
Number of permanent employees	**3 732**	3 639	**25**	24	**1 596**	1 443	**2 111**	2 172

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 2018

R000	2018	2017
ASSETS		
Non-current assets		
Interest in subsidiaries (note 1)	**244 974**	244 338
Current assets		
Receivables	**126**	540
Total assets	**245 100**	244 878
EQUITY AND LIABILITIES		
Shareholders' equity	**243 886**	243 664
Current liabilities		
Payables and taxation	**1 214**	1 214
Total equity and liabilities	**245 100**	244 878

STATEMENT OF COMPREHENSIVE INCOME

for the year ended 30 November 2018

R000	2018	2017
Dividends received from subsidiaries		
– Hudaco Investment Company (Pty) Ltd	**114 000**	200 000
– Hudaco Trading (Pty) Ltd	**85 000**	
Operating costs	**(4 101)**	(3 758)
Profit after taxation	**194 899**	196 242

STATEMENT OF CHANGES IN EQUITY

for the year ended 30 November 2018

R000	Share capital	Share premium	Special reserve account	Retained income	Share-holders' equity
Note	3				
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**
Profit after taxation				**194 899**	**194 899**
Dividends to shareholders				**(180 381)**	**(180 381)**
Dividends to subsidiary				**(14 296)**	**(14 296)**
Balance at 30 November 2018	**3 415**	**51 533**	**332**	**188 606**	**243 886**

Hudaco Industries Limited

STATEMENT OF CASH FLOWS

for the year ended 30 November 2018

R000	2018	2017
Cash generated from operating activities		
Dividends received	**199 000**	200 000
Operating costs paid	**(4 101)**	(3 758)
(Increase) decrease in working capital	**414**	(547)
Cash flow from operations	**195 313**	195 695
Dividends paid	**(194 677)**	(182 721)
Net cash retained	**636**	12 974
Cash applied to investment activities		
Increase in loans to subsidiary companies	**(636)**	(12 974)
Net cash applied	**0**	0

NOTES TO THE COMPANY FINANCIAL STATEMENTS

for the year ended 30 November 2018

R000	2018	2017

1. Interest in subsidiaries

	2018	2017
Shares at cost less amounts written off	**92 275**	92 275
Loans to subsidiaries	**152 699**	152 063
	244 974	244 338

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 R2,5 billion and the exposure is R1,4 billion at year end.

3. Share capital

3.1 Authorised share capital

	2018	2017
40 000 000 ordinary shares of 10 cents each	**4 000**	4 000

3.2 Issued share capital

	2018	2017
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 2018

	Issued share capital Rand	Interest of holding company					
		Group's effective interest		Book value of shares		Loans owing by	
		2018 %	2017 %	**2018 R000**	2017 R000	**2018 R000**	2017 R000
Hudaco Trading (Pty) Ltd	2 000	**85[(1)]**	85[(1)]	**2**	2		
Operating businesses							
Abes Technoseal							
A-Line Wheels							
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							
FTS Boltworld							
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							
TPA Security Distributors							
Varispeed							
Hudaco Investment Company (Pty) Ltd	26 160	**100**	100	**48 158**	48 158	**152 699**	152 063
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	**152 699**	152 063

(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 30 November 2018

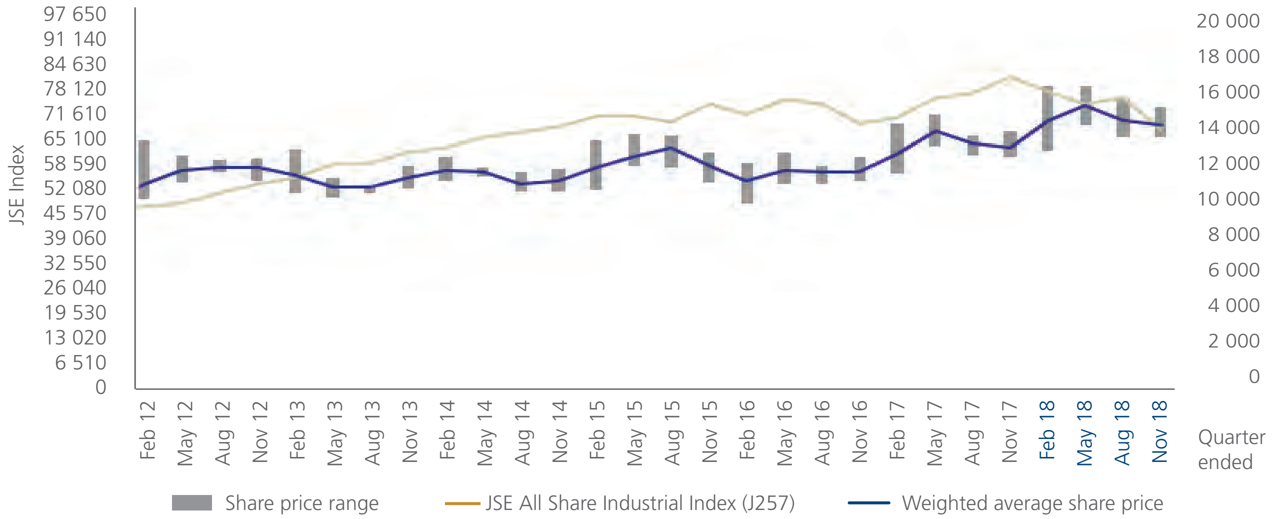
Shareholder analysis	Number of shareholders	**Number of shares**	% of issued shares
Portfolio size			
1 – 1 000 shares	2 806	**1 010 038**	3,19
1 001 – 5 000 shares	959	**2 158 435**	6,82
5 001 – 10 000 shares	167	**1 218 846**	3,85
10 001 – 100 000 shares	186	**6 133 096**	19,38
Over 100 000 shares	54	**21 125 288**	66,76
Total(1)	4 172	**31 645 703**	100,00
Category			
Banks and nominee companies	60	**3 291 980**	10,40
Financial institutions and pension funds	305	**20 957 898**	66,23
Individuals	3 746	**6 811 289**	21,52
Other corporate bodies	61	**584 536**	1,85
Total(1)	4 172	**31 645 703**	100,00
Shareholder spread			
Public	4 151	**30 400 355**	96,06
Non-public – directors and associates(2)	21	**1 245 348**	3,94
Total(1)	4 172	**31 645 703**	100,00

Major shareholders		
Beneficial shareholders holding more than 3%		
Public Investment Corporation GEPF	**3 058 948**	9,67
Old Mutual Life Assurance	**1 553 429**	4,91
PSG Flexible Fund	**1 428 777**	4,51
PSG Balanced Fund	**1 340 073**	4,23
Fund managers holding more than 3%		
PSG Asset Management	**4 555 987**	14,40
Public Investment Corporation	**3 195 250**	10,10
Old Mutual Investment Group	**1 852 580**	5,85
Investec Asset Management	**1 297 935**	4,10
Prudential Portfolio Managers	**1 284 418**	4,06
Laurium Capital	**1 225 913**	3,87
Dimensional Fund Advisors	**1 077 683**	3,41
Bateleur Capital	**1 058 138**	3,34
Foord Asset Management	**1 001 806**	3,17

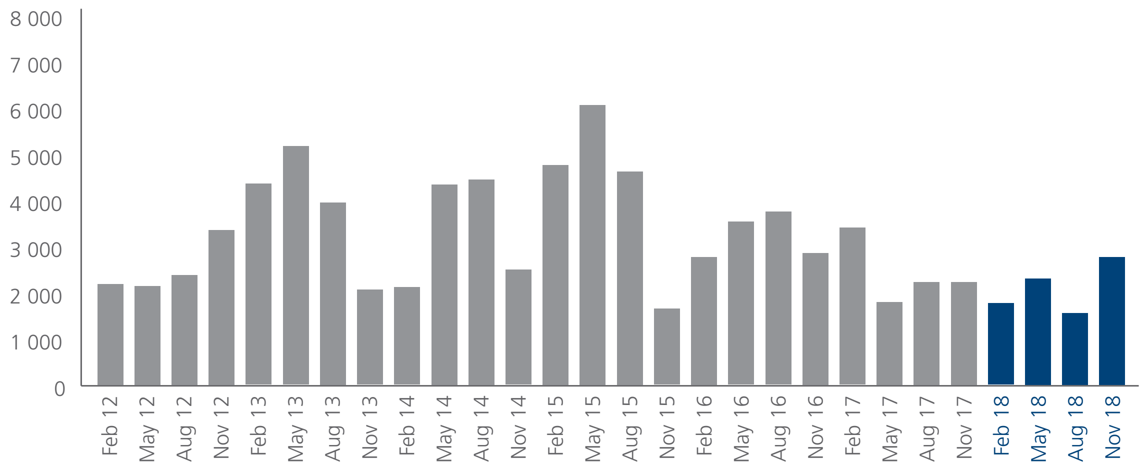
(1) Excludes 2 507 828 shares held by a subsidiary company.
(2) A list of shareholdings of senior management is available on request from the group secretary.

SHARE INFORMATION

Share price history



Volume of shares traded (000)



JSE statistics	**2018**	2017	2016	2015	2014	2013	2012
Market price (cents)	**14 200**	13 600	10 850	10 701	9 590	10 365	11 200
NAV per share (cents)	**7 927**	7 252	6 525	5 827	5 210	5 737	5 277
Number of shares in issue (000)*	**31 646**	31 646	31 646	31 646	31 646	31 646	31 646
Market capitalisation (Rm)*	**4 494**	4 304	3 434	3 386	3 035	3 280	3 544
Price:earnings ratio (times)	**10,9**	11,0	9,3	9,2	10,3	9,6	10,4
All Share Industrial Index PE ratio (J257)	**19,9**	30,4	27,0	22,6	21,6	21,0	18,7
Dividend yield (%)	**3,2**	3,1	4,8	4,9	4,8	4,5	4,2
All Share Industrial Index dividend yield (J257) (%)	**2,3**	1,9	2,5	2,3	2,2	2,2	2,4
Annual trade in Hudaco shares							
Number of transactions recorded	**24 072**	29 245	20 903	36 271	22 549	23 223	12 034
Volume of shares traded (000)	**8 440**	9 714	12 995	17 211	13 475	15 638	10 121
% of issued shares traded*	**27**	31	41	54	43	49	32
Value of shares traded (Rm)	**1 272**	1 234	1 341	2 007	1 354	1 496	1 062

** Excludes 2 507 828 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 34th annual general meeting (AGM) of Hudaco Industries Limited

Notice is hereby given that the 34th AGM of shareholders of the company for the year ended 30 November 2018 will be held at 11:00 on Tuesday, 19 March 2019 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)	**2019**
Record date for determining which shareholders are entitled to receive the AGM notice	Friday, 15 February
Notice posted to shareholders on or about	Friday, 22 February
Last day to trade to be eligible to participate and vote at the AGM	Tuesday, 5 March
Record date for attending and voting at the AGM (3)	Friday, 8 March
AGM to be held at 11:00	Tuesday, 19 March
Results of AGM to be released on SENS on	Tuesday, 19 March

Notes
1. *(1) All times referred to in this notice are local times in South Africa.*
2. *(2) Any material variation of the above dates and times will be announced on SENS and published in the press.*
3. *(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, 15 February 2019, and the record date for purposes of determining which shareholders of the company are entitled to participate and vote at the AGM is Friday, 8 March 2019. Accordingly, only shareholders who are recorded as such in the register maintained by the transfer secretaries of the company on Friday, 8 March 2019 will be entitled to participate in and vote at the AGM.*
4. *(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. Presentation of audited consolidated financial statements

To present the audited consolidated financial statements of the company (as approved by the board), as well as the reports of the external auditor, audit and risk management committee, social and ethics committee and directors for the financial year ended 30 November 2018, distributed as required.

Copies of the integrated report which contains the full audited consolidated annual financial statements for the year ended 30 November 2018 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 GR Dunford; and

2.2 Ordinary Resolution Number 1.2: Re-election of Ms D Naidoo

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.

Brief *curricula vitae* of directors who have offered themselves for re-election are included on pages 20 and 21 of the Hudaco integrated report.

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.

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

To elect as director Mr LFJ Meiring, 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 LFJ Meiring. It is the view of the board that the election of Mr LFJ Meiring 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 LFJ Meiring is included on page 21 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 appointment of external auditors

To appoint BDO South Africa Incorporated (BDO) 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 2019 is Ms VR de Villiers.

The audit and risk management committee of the company has concluded that the appointment of BDO 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 BDO for appointment as auditors of the company. On 1 December 2018, the Johannesburg office of Grant Thornton, the company's previous auditors joined BDO.

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, subject to the passing of Ordinary Resolution Number 1.2;

5.2 Ordinary Resolution Number 4.2: To elect Ms N Mandindi as member; and

5.3 Ordinary Resolution Number 4.3: To elect Mr MR Thompson as member.

Under the Companies Act the audit committee is a committee elected by the shareholders at each AGM. A brief *curriculum vitae* of each of the independent non-executive directors mentioned above appears on page 20 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. Ordinary Resolution Number 5: Amendments of The Hudaco Industries Limited Share Appreciation Plan

That the shareholders approve the following amendments to be made to The Hudaco Industries Limited Share Appreciation Plan (the plan), in order to reduce the aggregate number of share appreciation rights which may be acquired by participants as well as the aggregate number of shares which may be acquired by any one participant under the plan:

Clause 3.1 to be amended by the deletion of the figure "8 000 000" and the insertion of the figure "1 582 285" in its stead so that the new amended clause 3.1 reads as follows:

"3.1 The aggregate number of share appreciation rights that may be acquired by participants under the plan may not exceed that which will result in the settlement to participants in terms of this plan (together with any other plan) of more than 1 582 285 issued ordinary shares."

Clause 3.2 to be amended by the deletion of the figure "962 000" and the insertion of the figure "300 000" in its stead so that the new amended clause 3.2 reads as follows:

"3.2 The aggregate number of share appreciation rights that may be acquired by any one participant in terms of the plan may not exceed that which will result in the settlement to any one participant in terms of this plan (together with any other plan) of more than 300 000 issued ordinary shares."

The reason for this resolution is to reduce the number of shares authorised to be issued by the directors in terms of the plan to 1 582 285 which equates to 5% of the issued share capital of Hudaco, excluding treasury shares, and to align the aggregate number of share appreciation rights that may be acquired by any one participant under the plan.

The amendments to the plan have been approved by the JSE Limited and the plan will be available for inspection during normal business hours at the registered office of the company from the date of issue of the integrated report of which this notice forms part, up to the date of the annual general meeting.

To be passed, Ordinary Resolution Number 5 is required under the JSE Listings Requirements to be supported by 75% of the total number of votes exercisable by shareholders, present in person or by proxy.

7. 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 2019 until 31 March 2020, be and it is hereby approved as set out below:

	Proposed 2019		2018	
R (excluding VAT)	**Base fee**	**Penalty for non-attendance**	Base fee	Penalty for non-attendance
Board				
Chairman of the board	1 075 000*	20 000	1 033 500*	19 100
Lead independent director	391 000	19 000	376 300	18 500
Board member	287 000	14 000	276 300	13 500
Audit and risk management committee				
Chairman of the committee	250 000	20 000	240 400	19 100
Committee member	138 000	14 000	132 500	13 500
Remuneration committee				
Chairman of the committee	175 000	20 000	168 500	19 100
Committee member	80 000	12 500	42 700	6 700
Nomination committee				
Chairman of the committee	*		*	
Committee member	58 000	9 000	42 700	6 700
Social and ethics committee				
Chairman of the committee	150 000	20 000	143 750	19 100
Member of the committee	66 000	10 500	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 – R29 000 (2018: R28 000), Member – R21 000 (2018: R20 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 2019 until 31 March 2020. The fees payable to the non-executive directors are detailed above. Further details on the basis of calculation of remuneration are included in the remuneration report on page 45 of 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.

8. 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 on pages 43 to 46 of 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 opposed to the remuneration policy in order to ascertain the reasons therefore, and to address appropriately legitimate objections and concerns.

9. 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 on pages 46 to 54 of 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 opposed to the remuneration implementation report in order to ascertain the reasons therefore, and to address appropriately legitimate objections and concerns.

10. 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.

11. Special Resolution Number 3: General authority to repurchase up to 1 582 285 (5%) of the ordinary 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's 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 has 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 – note 17 on page 104.

Directors' responsibility statement

The directors, whose names appear on pages 20 and 21 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.

12. Ordinary Resolution Number 6: General authority to directors to allot and issue up to 1 582 285 authorised but unissued ordinary shares (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 6, 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.

NOTICE OF ANNUAL GENERAL MEETING continued

The authority in Ordinary Resolution Number 6 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 6.

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.

13. Ordinary Resolution Number 7 – 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 7 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 Friday, 8 March 2019.

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 Friday, 15 March 2019. 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

31 January 2019

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 34th 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 Tuesday, 19 March 2019 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 GR Dunford			
1.2 D Naidoo			
Ordinary Resolution Number 2: To elect LFJ Meiring appointed since previous AGM			
Ordinary Resolution Number 3: To approve the 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			
Ordinary Resolution Number 5: To approve amendments to The Hudaco Industries Limited Share Appreciation Plan			
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 ordinary shares in issue			
Ordinary Resolution Number 6: General authority to directors to allot and issue up to 1 582 285 authorised but unissued ordinary shares (5% of shares in issue)			
Ordinary Resolution Number 7: Signature of documents			

Signed at ______ on ______ 2019

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 Friday, 15 March 2019, 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

BDO South Africa Incorporated
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	19 March 2019
Reports and financial statements	
Preliminary report and final dividend announcement	1 February 2019
Abridged financial statements and notice of annual general meeting (mailed to shareholders)	22 February 2019
Interim report and interim dividend announcement	28 June 2019
Dividend payment details	
Payment of final dividend	4 March 2019
Payment of interim dividend	third week in August 2019

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
	FTS Boltworld	Distributor of a comprehensive range of quality fasteners, including blind rivets, self-drilling screws, hexagonal bolts, nuts and washers	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/surveillance, 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 surveillance, access control, fire detection, public address and perimeter detection products	27 Greenstone Place Greenstone Hill Edenvale
	Commercial ICT	Distributor of the Permaconn brand of GSM/IP communication equipment and systems as well as hosting and support of core IT infrastructure and communication networks	27 Greenstone Place Greenstone Hill Edenvale
	TPA Security Distributors	Distributor of electronic security equipment, including the Texecom range of intruder detection solutions, as well as related consumables	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
	A-Line Wheels	Distributor of alloy and steel wheels	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, HJS exhaust gas aftertreatment systems 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, helical gearboxes, frequency inverters and electric motors	72 Acacia Road Cnr Barbara Road Primrose, Germiston

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GROUP DIRECTORY continued

DIVISION	BUSINESS NAME	PRINCIPAL ACTIVITIES	ADDRESS
ENGINEERING CONSUMABLES continued			
	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 Edenvale
	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	Manufacturers of flame proof electro mechanical couplers, sockets, connectors, energy savers, lighting and other electrical solutions for the mining industry	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 and 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			
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Designations in consumer-related products and engineering consumables segments referring to director denotes divisional directorships and not statutory directorships.

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