Directors' report

The directors submit their report for the year ended 31 March 2017.

1. REVIEW OF ACTIVITIES

Main business and operations

The group is engaged as a construction materials company and operates principally in South Africa.

The group's profit after tax increased by 12,8% from R60 million to R68 million year on year even though revenue decreased from R874,3 million to R839,9 million due to lower prices and reduced demand in the mixed concrete market.

Métier

Métier's net profit increased by 7,3% from R62,8 million to R67,4 million in market conditions where revenue declined by 3,9%. The mixed concrete sector experienced intense price competition for supply contracts resulting in downward pressure on margins. The competition was driven by the continued decline in the initiation of large scale projects and new entrants in key markets. The lower pricing for bulk cement resulted in an increase in the number of blenders and independent mixed concrete manufacturers.

The geographical diversification of Métier's operations and manufacture of specialised concretes enabled the subsidiary to achieve an operating margin of 11,7% (2016: 11,6%). The subsidiary's performance further demonstrated management's mantle through the reduction of operational expenses by 3,7% to R250,4 million to support margins. The positive results for the last two years enabled Métier to submit a R50 million dividend to SepHold and reduce its overall bank debt obligations by R80 million.

An additional 12th mixed concrete plant located in the south of Gauteng commenced production in March 2017. This new plant is well – aligned to the overall growth strategy and will enable Métier to increase its footprint to reduce over-reliance on the current growth nodes by diversifying the customer base.

CEMENT

CEMENT's revenue remained comparatively flat year on year at R2,28 billion (2015: R2,29 billion). The associate achieved an increase of 4% in sales volumes but the average price per tonne decreased by 4,4% for the period ended 31 December 2016. The EBITDA margin increased to 23,1% (2015: 21,9%) and net profit increased to R68,9 million (2015: R50,4 million) of which R24,8 million was accounted for by SepHold on an equity accounting basis.

The cement market remained highly fragmented with all manufacturers using price competition to defend their sales volumes. Although bagged cement pricing started stabilising at the end of the 2016 calendar year, the contestation continued in the bulk cement market due to the limited number of new significant construction projects. The market was constituted mainly of bagged cement at between 70% – 80% because of the limited activity in the bulk use market.

Refer to note 8 to the annual financial statements for more details regarding CEMENT's financial results for the year ended 31 December 2016.

The operating results and state of affairs of the group are fully set out in the annual financial statements and do not, in our opinion, require any further comment other than those expressed in other parts of the integrated annual review.

2. GOING CONCERN

The financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

Directors' report continued

3. EVENTS AFTER THE REPORTING PERIOD

The directors are not aware of any material fact or circumstance arising between the end of the financial year and the date of this report that would require adjustments to or disclosure in the annual financial statements.

4. AUTHORISED AND ISSUED STATED CAPITAL

There were no changes in the authorised stated capital of the company during the year under review.

1 060 833 shares were issued during the year.

All the authorised and issued shares have no par value.

Refer to note 18 to the annual financial statements for further details on authorised and issued stated capital.

5. BORROWING LIMITATIONS

In terms of the memorandum of incorporation of the company, the directors may exercise all the powers of the company to borrow money, as they consider appropriate. The memorandum of incorporation authorises unlimited borrowing powers.

6. SHARE INCENTIVE SCHEME

Refer to note 19 to the annual financial statements for details about share-based payments during the financial year.

7. NON-CURRENT ASSETS

Details of major changes in the nature of the non-current assets of the group during the year were as follows:

Additions to property, plant and equipment of the group amounted to R28 535 101 (2016: R36 589 743). Refer to note 4 to the annual financial statements for further details.

8. DIVIDENDS

No dividends were declared or paid to shareholders during the year.

9. DIRECTORS

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

Name	Position	Changes
B Williams	Chairman – independent Non-executive director	
PM Makwana	Independent non-executive director	
MM Ngoasheng	Independent non-executive director	
MJ Janse van Rensburg	Independent non-executive director	Appointed 22 September 2016
B Maluleke	Independent non-executive director	Appointed 9 November 2016
MG Mahlare	Independent non-executive director	Resigned 22 September 2016
Dr L Mohuba	Chief executive officer	
NR Crafford-Lazarus	Financial director	
RR Matjiu	Non-executive director	
KJ Capes	Executive director	
PF Fourie	Non-executive director	
J Pitt	Alternate director to MM Ngoasheng	

10. SECRETARY

The secretary of the company is Acorim Proprietary Limited of:

Business address
2nd Floor, North Block, Hyde Park Office Towers
Hyde Park Corner Mall
Corner 6th Road and Jan Smuts Avenue
Hyde Park, Johannesburg, 2024

Postal address
PO Box 41480
Craighall
2024

The company secretary provides the board with guidance in respect of the discharge of directors' duties and their responsibilities, and regarding legislation, regulatory and governance procedures and requirements. The board has access to, and is aware of, the responsibilities and duties of the company secretary and has committed itself to ensure that the company secretary is afforded the support required to perform its duties.

The company secretary acts as secretary to board-appointed committees. The board is satisfied that Acorim, represented by Nikita Brocco, has the required knowledge, skill and discipline to perform the functions and duties of the company secretary. The board has concluded that Acorim maintains an arm's-length relationship with the company and its board.

No Acorim employees are directors of the company, nor do they have any other interests or relations that may affect independence. In making this assessment, the board considered the independence of Acorim directors, shareholders and employees, as well as Acorim's collective qualifications and track record.

11. SUBSIDIARIES

Name of subsidiary	**Net income after tax 2017 R**	Net income after tax 2016 R
Métier Mixed Concrete Proprietary Limited	**57 441 647**	58 234 411
Sephaku Investment Holdings Proprietary Limited (previously Sephaku Cement Investment Holdings Limited)	**(6 000)**	–

Details of the company's investment in subsidiaries are set out in note 7 to the annual financial statements.

12. SPECIAL RESOLUTIONS

No special resolutions of material interest or of a substantive nature were passed by the company's subsidiaries after the date of acquisition.

13. AUDITORS

Grant Thornton Johannesburg Partnership was re-appointed as the group's auditors during the financial period in accordance with section 90 of the Companies Act. At the annual general meeting shareholders will be requested to re-appoint Grant Thornton Johannesburg Partnership as auditors of the group.

Directors' report continued

14. SHAREHOLDERS' INFORMATION

An analysis of shareholders and the respective percentage shareholdings appear in the shareholders' analysis section on page 64.

Beneficial shareholdings of directors, directors' associates and prescribed officers

	2017			2016		
Director/prescribed officer	**Direct**	**Indirect**	**Associates**	Direct	Indirect	Associates
MG Mahlare	**23 000**	**–**	**–**	23 000	–	–
Dr L Mohuba	**87 202**	**8 363 767**	**240 000**	87 202	9 263 767	340 000
NR Crafford-Lazarus	**2 287 728**	**–**	**–**	2 262 728	–	–
RR Matjiu	**1 615 923**	**–**	**–**	2 085 923	–	–
KJ Capes	**5 558 271**	**–**	**–**	5 558 271	–	–
PF Fourie	**–**	**5 433 559**	**–**	–	5 433 559	–
RS Thompson*	**5 351 867**	**–**	**–**	5 351 867	–	–
WM Witherspoon*	**5 351 867**	**–**	**–**	5 351 867	–	–
	20 275 858	**13 797 326**	**240 000**	20 720 858	14 697 326	340 000

** Prescribed officer and director of Métier who resigned on 15 March 2016.*

There have been no changes in the beneficial interests of the directors in the stated capital between the end of the financial year and the date of approval of these annual financial statements.

Directors' interest in share options

	2017							
	Opening balance number of share options	**Exercise price R**	**Options exercised**	**Date exercised**	**Market price on exercise date**	**Options vested at year–end**	**Closing balance number of share options**	**Pre-taxation gain**
Dr L Mohuba								
Granted 15/10/2010	**715 000**	**2,68**	**–**	**–**	**–**	**715 000**	**715 000**	**–**
Granted 29/06/2012	**750 000**	**1,90**	**–**	**–**	**–**	**500 000**	**750 000**	**–**
Granted 10/12/2014	**400 000**	**6,80**	**–**	**–**	**–**	**–**	**400 000**	**–**
Granted 31/03/2016	**400 000**	**4,40**	**–**	**–**	**–**	**–**	**400 000**	**–**
NR Crafford-Lazarus								
Granted 15/10/2010	**715 000**	**2,68**	**–**	**–**	**–**	**715 000**	**715 000**	**–**
Granted 29/06/2012	**750 000**	**1,90**	**–**	**–**	**–**	**500 000**	**750 000**	**–**
Granted 31/08/2012	**750 000**	**1,90**	**–**	**–**	**–**	**500 000**	**750 000**	**–**
Granted 10/12/2014	**375 000**	**6,80**	**–**	**–**	**–**	**–**	**375 000**	**–**
Granted 31/03/2016	**400 000**	**4,40**	**–**	**–**	**–**	**–**	**400 000**	**–**
RR Matjiu								
Granted 15/10/2010	**200 000**	**2,68**	**–**	**–**	**–**	**200 000**	**200 000**	**–**
Granted 29/06/2012	**300 000**	**1,90**	**–**	**–**	**–**	**200 000**	**300 000**	**–**
Granted 10/12/2014	**125 000**	**6,80**	**–**	**–**	**–**	**–**	**125 000**	**–**
Granted 31/03/2016	**100 000**	**4,40**	**–**	**–**	**–**	**–**	**100 000**	**–**
PF Fourie								
Granted 15/10/2010	**550 527**	**2,68**	**–**	**–**	**–**	**550 527**	**550 527**	**–**
	6 530 527		**–**	**–**	**–**	**3 880 527**	**6 530 527**	**–**

14. SHAREHOLDERS' INFORMATION (continued)

	2016							
	Opening balance number of share options	Exercise price R	Options exercised	Date exercised	Market price on exercise date	Options vested at year-end	Closing balance number of share options	Pre-taxation gain R
Dr L Mohuba								
Granted 15/10/2010	715 000	2,68	–	–	–	715 000	715 000	–
Granted 29/06/2012	750 000	1,90	–	–	–	250 000	750 000	–
Granted 10/12/2014	400 000	6,80	–	–	–	–	400 000	–
Granted 31/03/2016	400 000	4,40	–	–	–	–	400 000	–
NR Crafford-Lazarus								
Granted 15/10/2010	715 000	2,68	–	–	–	715 000	715 000	–
Granted 29/06/2012	750 000	1,90	–	–	–	250 000	750 000	–
Granted 31/08/2012	750 000	1,90	–	–	–	250 000	750 000	–
Granted 10/12/2014	375 000	6,80	–	–	–	–	375 000	–
Granted 31/03/2016	400 000	4,40	–	–	–	–	400 000	–
RR Matjiu								
Granted 15/10/2010	200 000	2,68	–	–	–	200 000	200 000	–
Granted 29/06/2012	300 000	1,90	–	–	–	100 000	300 000	
Granted 10/12/2014	125 000	6,80	–	–	–	–	125 000	
Granted 31/03/2016	100 000	4,40	–	–	–	–	100 000	
PF Fourie								
Granted 15/10/2010	715 000	2,68					715 000	–
		2,68	(162 983)	18/12/2015	R5,25	–	(162 983)	418 866
		2,68	(613)	18/12/2015	R5,30	–	(613)	1 606
		2,68	(877)	18/12/2015	R5,31	–	(877)	2 307
	715 000	2,68	(164 473)			550 527	550 527	422 779
	6 695 000		(164 473)			3 030 527	6 530 527	422 779

Refer to note 19 for more details on share options and the vesting conditions.