02 | LEADERSHIP

BOARD STRUCTURE

BOARD MEMBERS: Carl Stein (Chairman), Steven Gottschalk, Clive Sack, Mano Padiyachy, Mike Groves, Mathews Phosa,Velile Mcobothi

SOCIAL AND ETHICS COMMITTEE: Velile Mcobothi (Chairman), Steven Gottschalk, Mike Groves

REMUNERATION AND NOMINATIONS COMMITTEE: Mike Groves (Chairman), Carl Stein

AUDIT AND RISK COMMITTEE: Mike Groves (Chairman), Carl Stein, Velile Mcobothi

GROUP DIRECTORS

1. **Carl Stein (62)**

   Chairman (Independent), LLB, HDip Tax Law

   Carl is a senior director in the corporate/commercial department of Bowman Gilfillan Inc., one of the three largest law firms in South Africa. He has been a practising attorney throughout his business career, and is today regarded as one of South Africa's leading corporate lawyers. He is also a non-executive director of other listed companies. Carl became chairman of Value Group in 1998.

2. **Steven Gottschalk (58)**

   Chief executive officer

   Steven founded the business of Value Group in 1981. From its initial focus on truck rental and transport, Steven initiated the change in the Group's focus to that of a fully integrated logistics provider.

3. **Mathews Phosa (64)**

   Non-executive director, LLB, Honorary PhD in law

   Mathews opened the first black empowerment law practice in Nelspruit in 1981. He was elected as the first Premier of Mpumalanga province in 1994. Following the elections in 1999, Mathews resigned his seat in parliament in favour of focusing his attention for a career in business. Mathews re-entered the political arena in 2007 when he was appointed Treasurer-General of the National Executive Committee of the ANC. He joined Value Group in October 2002 as an executive director and was subsequently appointed as a non-executive director with effect from May 2010.

4. **Velile Mcobothi (41)**

   Non-executive director (Independent), CA(SA)

   Velile has 15 years' investment banking experience in listed securities and private equity industries mainly with Investec Bank Limited. He currently runs Cinga Holdings (Pty) Limited, an advisory and investment holdings business within the mid-cap sector. He acts as an independent non-executive director of Litha Healthcare Group Limited and is chairman of that audit committee. He was appointed as a non-executive director of Value Group Limited in November 2011 and an independent non-executive director in February 2012.

5. **Clive Sack (46)**

   Group financial director, CA(SA)

   Clive completed his articles at Mazars Moores Rowland in 1996. He remained on as an audit manager until 1998, whereafter he joined Value Group as Group financial manager. In May 2002, he was appointed to the Board as Group financial director.

6. **Mike Groves (71)**

   Non-executive director (Independent), CA(SA)

   Mike was the managing director of Grindrod Limited until 1999. He has 39 years' experience in the shipping and transport industry. He acted as an independent non-executive director of Grindrod Bank Limited until May 2015, as well as Grindrod Limited until December 2014. Mike is a past president of SA Ship Owners Association. He was appointed as a non-executive director of Value Group in August 2002.

7. **Mano Padiyachy (51)**

   Executive director

   Mano started his working career in the warehousing and distribution industry at Royal Beechnut (Nabisco). He joined Value Group in February 2000 as contracts manager. He was then appointed as a divisional director in August 2004 and finally to the Board in July 2007.

CHAIRMAN'S STATEMENT **CARL STEIN**

The 2016 financial year proved to be yet another challenging one for the Group. The current economic situation depicted by tough trading conditions, coupled with increasing costs, have all contributed to the Group's poor results.

The logistics sector is under continued strain with reduced consumer demand and customer rate pressures directly affecting the industry. The sector has seen declines in volumes to such an extent that it can be classified as being in a recession.

Despite the tough economic conditions faced by the Group over the past financial year, revenue and gross profit saw a slight increase of 1% and 3% respectively. These improvements were, however, offset by increased operating expenses.

A significant reduction in capital expenditure over the prior year, coupled with positive cash balances, enabled the Group to reduce its interest-bearing debt from R283,2 million to R264,5 million. Further reductions in capital expenditure are expected in the 2017 financial year, which will allow the Group to further reduce its interest-bearing debt.

The Group continues to strive towards its transformation goals. In 2016, our B-BBEE level 3 rating was maintained which translates to a 110% procurement recognition level for our customers. We anticipate amendments to the transport sector code (in line with the revised BEE codes) which will have an effect on the Group's future BEE rating.

The Group does not expect trading conditions to improve in the new financial year. The budget speech has also forecasted a decrease in GDP growth coupled with an increase in consumer inflation, which does not bode well for the economic environment. Management is, however, taking measures to ensure the Group's continuity and future profitability in these harsh conditions. A restructuring exercise is under way in the Logistics and Freightpak break-bulk operations which will see, amongst others, the re-costing of customers' distribution profiles, re-sizing of branch operations and an assessment of distribution methodologies. Proactive management and the ability to adapt to adverse conditions will be fundamental to Value. I am confident that the management team possess these required skills, ensuring that the Group weathers these difficult economic times.

Effective 1 March 2016, I am pleased to advise that the Group has acquired 100% of the issued share capital of Key Distributors Proprietary Limited ("Key"). This acquisition will facilitate the opportunity for Value to diversify its business and expand its FMCG volumes. In turn, it is expected that the Group's infrastructure will afford Key the opportunity to grow its business and contribute positively to the Group.

The success of our business would not be possible without the dedication and service of its people. It is with great pleasure that I express my gratitude to my fellow directors, management, employees, customers and suppliers for their contributions to the success of Value.

Carl Stein
Chairman

22 July 2016

COMBINED CHIEF EXECUTIVE OFFICER'S AND GROUP FINANCIAL DIRECTOR'S REPORT **STEVEN GOTTSCHALK AND CLIVE SACK**

FINANCIAL REVIEW

Trading conditions in the second half of the financial year proved to be very difficult. Peak volumes associated with the Christmas season did not materialise with the result that year-to-date volumes were substantially less than that of the comparative period.

Over the last year, volumes in the logistics industry have declined to such an extent that the sector can be classified as being in a recession. The effects thereof are evident in the Group's 2016 year-end results. New business and annual escalations were offset by the volume decline with the result that revenue increased by a marginal 1% from R2,038 billion to R2,062 billion.

Ongoing cost saving initiatives resulted in a reduction in labour, maintenance and fuel costs which contributed positively to gross profit percentages improving from 38,2% to 39,1% with actual gross profit increasing by R26,5 million to R806 million.

Operating expenses, however, increased by 7,1% to R730,6 million, resulting in an 18% reduction in operating profit from R108,7 million to R89,3 million.

An effective tax rate of 25,8% was maintained due to the ongoing tax allowance derived from learnerships.

Net profit for the year decreased by 20% to R54,2 million. Basic and headline earnings per share declined by 16% to 35,4 and 37,2 cents per share respectively.

Total capital expenditure amounted to R165 million and together with comparatives consisted of the following:

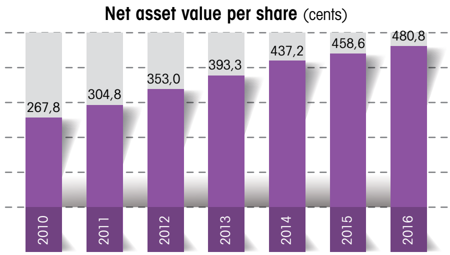
R million	**2016**	2015	2014	2013	2012
Vehicles	**54,5**	135,6	124,9	77,4	129,6
IT hardware and software	**18,6**	17,2	25,7	31,4	37,8
Materials handling equipment	**59,7**	29,1	29,1	21,9	42,7
Plant, equipment and accessories	**32,2**	31,1	22,6	18,1	11,6
Property expansion	**—**	—	—	—	17,3
Total	**165,0**	213,0	202,3	148,8	239,0

The capital expenditure was funded by R55,3 million realised on the disposal of assets and internally generated cash flows. Cash flows from operating activities improved by 11% from R158,6 million to R175,7 million. Although working capital management improved, it was negatively affected by the late payment of certain large accounts. In addition, R16 million was spent on the repurchase of 3,93 million shares. Accordingly, cash balances reduced from R127,3 million to R101,3 million. Positive cash balances funded the reduction of R18,7 million in interest-bearing debt which reduced from R283,2 million to R264,5 million. The Group's debt: equity ratio remains low at 37% which is well within the guidelines set by the Group.

COMBINED CHIEF EXECUTIVE OFFICER'S AND GROUP FINANCIAL DIRECTOR'S REPORT

(continued)

Looking at the balance sheet of the Group, the net asset value increased by 5% from 458,6 cents to 480,8 cents per share. The growth in net asset value per share is reflected below:



The Group is adequately capitalised. Cash flows and facilities are sufficient to sustain the operations of the Group.

KEY FINANCIAL RATIOS

The Group sets targets on a combination of key performance ratios to assess financial performance, funding levels and returns, as follows:

Key financial ratio	Target	**2016**	2015	2014	2013	2012
Gross profit (%)	≥ 45	**39**	38	39	40	42
Operating margin (%)	≥ 11	**4**	5	8	9	10
After tax return on average equity (%)	≥ 20	**7**	9	16	17	20
Debt:equity (%)	40 - 60	**37**	39	35	42	54
Debtors days (excluding effects of clearing and forwarding)	≤ 40	**39**	34	34	34	43
Current ratio	0,9 – 1,0	**1,03**	1,07	1,05	1,03	0,91

It is clear that margin pressure stemming from the subdued economy and cost increases has affected the Group's profitability and returns.

OPERATIONAL REVIEW

General distribution segment

The General distribution segment accounts for 82% of the revenue and produces 80% of the Group's operating profit before head office costs.

Revenue increased by R26,6 million to R1,68 billion mostly as a result of the inclusion of Core Logistix ("Core") revenue effective 1 March 2015. Excluding Core, revenue reduced due to significant decline in volumes particularly over the Christmas period and into 2016. This decline in the Logistics and Freightpak operations, together with the associated increased costs, contributed to reducing the segment's operating profits by 18,3% to R91,3 million.

Consumer disposable income has been cut by increased food prices, increased interest rates and the depreciating rand. This has had a negative effect on the break bulk division's results which incorporates the Logistics and Freightpak operations. Volumes declined further. Although a number of cost reduction initiatives were successfully rolled out in the 2016 financial year, an extensive and detailed restructuring exercise is currently under way to address the revenue and cost streams in these operations. The actions consist of the following:

- All customers' distribution profiles and associated rates are being recosted and adjusted where required.
- Right sizing of the various branch operations in line with the reductions in activity and volumes.
- Fleet and delivery frequencies are being reassessed.
- Restructuring of various activities and distribution methodologies.

The outcome of this restructuring will be a possible downscaling of the Logistics and Freightpak operations, whilst simultaneously reducing costs and improving profitability. The restructuring is expected to be completed by the end of the third quarter. Further restructuring may be required based on future prevailing market conditions.

The warehousing operations continue to improve and yield positive results despite customer pressures to save costs, improve stock turns and reduce stock holding. A profitable warehousing account was lost in December 2015. On the positive side, a substantial new account commenced during the year which included complex and protracted IT interfaces and IT intervention. In addition, a new large warehousing account commenced in May 2016 and has settled down. The warehousing business is well run with a strong foundation and is strategically placed for further growth.

The dedicated distribution operation continues to perform above expectation. Despite contracts terminated during the latter part of the year, the operation produced good results.

The express operation continues to grow and produced results which exceeded expectations. It is well run and geared for further growth.

Truck rental and other segments

Revenue reduced marginally by R6,5 million to R377,6 million. Demand for truck rental services in the second half was below that of the prior year. Operating profit improved marginally to R22,9 million as a result of reduced maintenance and various other cost reductions.

Right sizing of the fleet in the truck rental business has contributed to vehicle utilisation improving to the mid 70%. In addition, reduced fleet and new management and initiatives in the workshops have delivered sustainable maintenance costs savings. The truck rental business is profitable. Truck rental services are sold to all sectors of the economy. Focus on the film industry is proving to be positive with medium-term hires contributing to revenue in the Cape Town and Johannesburg areas.

Although the business posted record growth in unit sales, the materials handling division did not perform according to expectations. Market share growth had an effect on profitability. The business is undergoing its own restructuring to generate the required efficiencies and profit targets. The depreciation in the exchange rate will have a direct impact on future sales volumes and associated pricing. Consequently, in the current economic environment, the South African market is expected to contract.

The clearing and forwarding operation has once again performed to expectation. Pricing is very competitive with reduced volumes being offset by increased FOB values. The joint venture with Weida Freight in Hong Kong has proved to be successful. Further joint ventures are being pursued in America and Europe.

DIVIDEND

The Group's cash flows are expected to remain positive. Accordingly, the Board declared a gross final dividend of 12 cents per ordinary share which was paid out of distributable reserves.

This dividend was covered 2,18 times by second half headline earnings. The total dividend paid for the year amounts to 17 cents per share, in line with that of the previous year.

POST-YEAR-END ACQUISITION

Effective 1 March 2016, Value Group acquired 100% of the issued share capital of Key Distributors Proprietary Limited ("Key"). Key undertakes the warehousing, distribution and wholesaling of a variety of FMCG products into the formal and informal sector, consisting of independent traders, fuel forecourts, and small retailers. Key currently operates in the Gauteng, Polokwane, Nelspruit and Bloemfontein areas.

The acquisition includes a skilled, hands-on and competent management team. Management will remain in the business for a minimum of four years subsequent to the effective date.

As Key wholesales and delivers into the informal market, it offers Value vertical integration into this dynamic and enterprising market. This acquisition will facilitate the opportunity for Value to diversify its business, whilst leveraging off its core national infrastructure in its general distribution business. The transaction will enable Value to own, expand and control its FMCG volumes. The Value infrastructure will provide Key with the opportunity to grow its business nationally which will complement certain of Value's customers' requirements to sell product into this enterprising segment of the market.

SOCIAL RESPONSIBILITY

Since 2008, we have seen 772 permanent learners as well as 588 unemployed learners successfully complete a learnership. In the new financial year, 60 unemployed and 25 disabled learners were enrolled nationally.

The Group acknowledges its role regarding corporate social responsibility and has a balanced approach to address economic, environmental and social issues in ways that aim to benefit people, communities and society. Various socio-economic concerns within the South African context, such as education, poverty, HIV/AIDS and unemployment have been identified. These concerns have been adopted in the implementation of various projects.

The Group supports education as a means of alleviating poverty and reducing the incidence of HIV/AIDS in South Africa. Educating communities breaks the cycle of poverty, resulting in employable individuals that can be gainfully employed and give back to their communities, creating wealth and sustainability.

In light of this, the bulk of monetary spend has been allocated to projects involving educating company employees, communities and/or providing the tools required for educational purposes.

The Group is committed to the principles of broad-based black economic empowerment. The Group is pleased to advise that it has once again achieved a level 3 B-BBEE score for 2016.

LOOKING AHEAD

The current economic environment is not expected to improve in the 2017 financial year. Increased interest rates, poor projected growth and a depreciated exchange rate does not bode well for inflation nor consumer spend. These factors will contribute to cost escalations, reduce consumption and compound pressure on existing volumes. However, to counter these adverse market factors, it is anticipated that the restructuring and resizing of the Logistics and Freightpak operations will contribute positively in the future. In addition, capital expenditure for the 2017 financial year will be materially reduced. This will facilitate a reduction in interest-bearing debt.

The Group continues to pursue acquisition opportunities that will complement and improve revenue streams in the existing divisions. The acquisition of Key will open up new markets and opportunities for the Group. Key's current food products and related goods will be expanded nationally by leveraging off its successful formula, know-how and skills base. Synergies with Value's infrastructure are expected to materialise. It is expected that Key will contribute positively to the Group. These forecasts have not been audited nor reviewed by the Group's auditors.

ACKNOWLEDGEMENTS

First and foremost, a big thank you is extended to all our customers for your continued support. The foundation and sustainability of our business has been built on the long-term relationships we have established.

Thank you to all our loyal staff members who have contributed to the well-being of our Company, particularly in view of the challenging trading conditions we have experienced.

Lastly, thank you to the Board of directors for your ongoing support, wisdom and guidance.

For and on behalf of the Board

Steven Gottschalk
Chief executive officer

Clive Sack
Group financial director

22 July 2016