Hudaco

INTEGRATED REPORT

FOR THE YEAR ENDED 30 NOVEMBER

2015

CONTENTS

PROFILE

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

Hudaco businesses serve markets that fall into two primary categories. The automotive aftermarket, power tool and security businesses supply products into markets with a bias towards consumer spending whilst the bearings, power transmission and diesel engine 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

Comparable earnings
up 19%

Turnover
up 17% to over R5 billion

Operating profit
up 23%

Dividends
up 13%

Return on average equity
up from 18% to 22%

Consumer-related products
becomes largest segment

72 bursaries granted
to staff and their family members

95 technical trainees
successful

20 employees graduate
from Wits Business School

Sales into Africa
marginally down

Economy stagnating
and sentiment negative

Legal proceedings instituted
against advisors to recover tax settlement

Weak commodity prices
impacted engineering consumables businesses

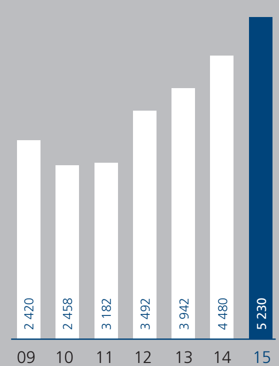
National electricity crisis
created opportunities for our battery and diesel engine businesses but challenges for the rest

Partquip acquisition
highly successful

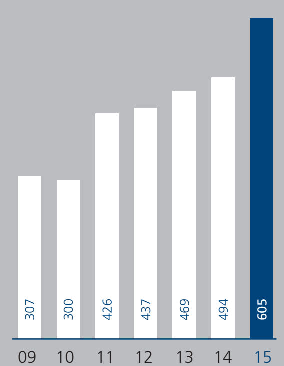
RESULTS IN BRIEF

30 November	2015	2014
Turnover (Rm)	5 230	4 480
Operating profit (Rm)	605	494
Comparable earnings (Rm)	370	312
Headline earnings (Rm)	368	2
Attributable earnings (Rm)	369	3
Comparable earnings per share (cents)	1 169	986
Headline earnings per share (cents)	1 163	6
Dividends per share (cents)	525	465

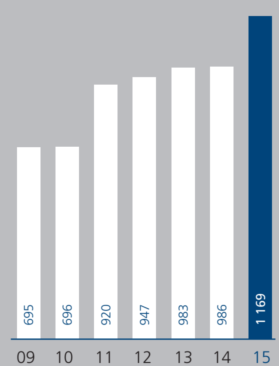
TURNOVER (RM)



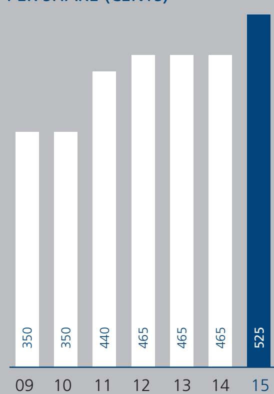
OPERATING PROFIT (RM)



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 2014 to 30 November 2015. 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 2015 and 30 November 2014. The previous IAR covered the period 1 December 2013 to 30 November 2014. The IAR deals with Hudaco's operations in South Africa, the rest of Africa and outside Africa.

The entities reported on include Hudaco Industries Limited, and its subsidiaries.

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

BASIS OF PREPARATION

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

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

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

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

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.

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

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

Report element	Guidelines	Reference
Corporate governance and risk management report	King III	Pages 31 to 45
Black economic empowerment status report	Codes of Good Practice, issued by the Department of Trade and Industry (dti)	Page 56
Sustainability report	Various relevant guidelines, including those contained in the global reporting initiative (GRI) G3 indicators	Pages 56 to 59 and throughout as well as website
Annual financial statements	International Financial Reporting Standards (IFRS), Financial Reporting Guides, issued by the South African Institute of Chartered Accountants, South African Companies Act and the JSE Listings Requirements	Pages 74 to 114

While we acknowledge that there are still areas to be improved upon in Hudaco's reporting and we remain committed to addressing these in subsequent reports, we believe that, building on our previous reports, this 2015 report moves us yet closer towards best international practice, provides stakeholders with a more detailed view of our activities for the past year and outlines our approach to these issues in the years ahead. Hudaco's reporting complies with application level C of the GRI (G3) sustainability guidelines on economic, environmental and social performance, adopted by the group in 2010.

APPROVAL OF FINANCIAL STATEMENTS

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

HARD COPY AND REPORT FEEDBACK

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

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

1980s

SECOND JSE LISTING

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

2000s

B-BBEE SHAREHOLDING AND GROWTH

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

Today

A QUALITY DIVERSIFIED INDUSTRIAL DISTRIBUTOR

Recent years have seen Hudaco make several significant acquisitions, including Filter and Hose Solutions, Global Communications and the Dosco group. Partquip, which serves the automotive aftermarket, was acquired at the beginning of the 2015 financial year and is now the group's largest single business. These acquisitions have enabled the group to weather very difficult conditions in its core markets and to diversify the sectors it serves so as to reduce exposure to mining and manufacturing.

Today, with a proud history of over 120 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 nearly 3 000 people and has a market capitalisation of about R3 billion. Its shareholders include many blue-chip players in the South African investment industry.

GROUP AT A GLANCE

CONSUMER-RELATED PRODUCTS

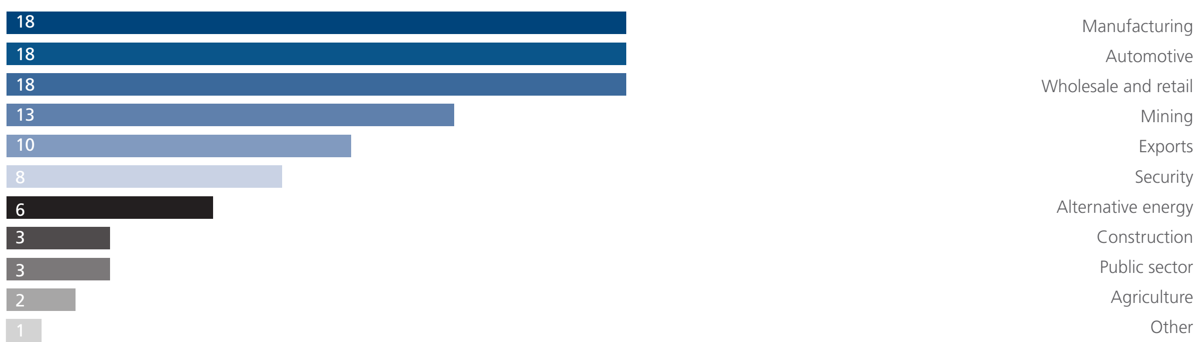
Principal activities	Businesses
Automotive products	**Abes Technoseal and Partquip**
The distribution of clutch kits, automotive ignition leads, oil and hydraulic seals, wheels, brake and clutch hydraulics, mountings, bushes, hydraulic repair kits, cylinders, hose, CV joints, wheel hubs, suspension components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

ENGINEERING CONSUMABLES

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.
Power transmission	**Power transmission**
The distribution of geared motors, belting, hydraulics, filtration solutions, kits and accessories, pneumatics, industrial hose, conveyor drive pulleys, variable speed drives, special engineering steels, specialised thermoplastic pipes and fittings, gear pumps, ferrous and non-ferrous castings, electrical cabling, plugs and related products to the manufacturing, mining and agricultural aftermarkets.	Ambro Sales, Astore Africa, Bauer, Belting Supply Services, Berntel, Bosworth, Dosco, Ernest Lowe, Filter and Hose Solutions, GPM, Joseph Grieveson, Powermite, Proof Engineering, Sanderson Special Steels, Three-D Agencies and Varispeed.
Bearings	**Bearings International**
The distribution of bearings, chain, seals, geared motors, electric motors and transmission products.	Has over 40 branches across South Africa. The main bearing brands distributed are FAG from Germany and KOYO from Japan.

GROUP

SALES BY MARKET SECTOR – 2015 (%)



Key drivers
Consumer spending
Building activity
Employment levels
Vehicle sales
Analogue to digital migration

R million	2015	2014
Sales	2 603	1 718
– Ongoing	1 947	1 718
– Acquired 2015	656	
Operating profit	380	215
– Ongoing	261	215
– Acquired 2015	119	
Average NOA *	1 072	673
Number of permanent employees	865	666

** Net operating assets.*

47

Key drivers
GDP growth
Mining activity
Mining investment
Mining mechanisation
Manufacturing activity
Electricity usage management

R million	2015	2014
Sales	2 635	2 767
– Ongoing	2 609	2 767
– Acquired 2015	26	
Operating profit	260	302
– Ongoing	256	302
– Acquired 2015	4	
Average NOA *	1 658	1 605
Number of permanent employees	2 093	2 146

** Net operating assets.*

52

Key drivers
Exchange rates
Acquisitions

R million	2015	2014
Sales	5 230	4 480
– Ongoing	4 548	4 480
– Acquired 2015	682	
Operating profit	605	494
– Ongoing	482	494
– Acquired 2015	123	
Average NOA *	2 708	2 383
Number of permanent employees	2 980	2 835

** Net operating assets.*

SEVEN-YEAR REVIEW

R million	2015	2014	2013	2012	2011	2010	2009
GROUP STATEMENT OF INCOME							
Turnover	5 230	4 480	3 942	3 492	3 182	2 458	2 420
Profit before interest and tax	603	497	446	445	426	300	307
Net finance costs less dividends received	76	39	21	48	42	17	28
Profit before taxation	527	458	425	397	384	283	279
Taxation excluding tax settlement	141	128	120	47	46	26	24
Profit before tax settlement	386	330	305	350	338	257	255
Settlement of tax dispute		312					
Income from joint venture	3						
Profit for the year	389	18	305	350	338	257	255
Non-controlling interest	21	15	11	11	13	5	6
Headline earnings	368	3	294	339	325	252	249
Capital items	1			1	(1)	(18)	(6)
Attributable earnings	369	3	294	340	324	234	243
Shares in issue (000) (weighted average)	31 646	31 646	31 646	31 646	31 617	31 466	31 023
Earnings per share (cents)							
– comparable	1 169	986	983	947	920	695	695
– headline	1 163	6	928	1 071	1 024	800	801
– basic	1 164	8	930	1 074	1 026	745	784
Dividends per share (cents)	525	465	465	465	440	350	350
GROUP STATEMENT OF FINANCIAL POSITION							
Property, plant and equipment	261	257	214	205	182	131	91
Investment in joint venture	7						
Goodwill	1 001	730	619	594	516	331	117
Intangible assets	69	36	39	49	49	34	18
Deferred taxation – net	15	1	10	11	11	23	11
Inventories	1 369	1 141	1 104	919	813	663	597
Trade and other receivables	990	856	780	684	616	423	356
Trade and other payables	(764)	(711)	(673)	(592)	(586)	(420)	(326)
Taxation – net	3	(186)	37	(6)	(8)	(6)	(10)
Net operating assets	2 952	2 124	2 130	1 864	1 593	1 179	854
Investment in preference shares				2 181	2 181	2 181	2 181
Net (borrowings) cash	(1 016)	(413)	(204)	(17)	166	262	335
Employment of capital	1 935	1 711	1 926	4 028	3 940	3 622	3 370
Interest of shareholders of the group	1 844	1 649	1 816	1 670	1 494	1 287	1 150
Non-controlling interest	51	33	19	26	31	27	34
Equity	1 895	1 682	1 835	1 696	1 525	1 314	1 184
Subordinated debenture				2 181	2 181	2 181	2 181
Amounts due to vendors on acquisitions	40	29	91	151	234	127	5
Total capital employed	1 935	1 711	1 926	4 028	3 940	3 622	3 370
GROUP STATEMENT OF CASH FLOWS							
Cash generated from trading	653	525	513	458	458	327	333
(Increase) decrease in working capital	(153)	(44)	(138)	(121)	(129)	12	166
Cash generated from operations	500	481	375	337	329	339	499
Taxation paid (including tax settlement)	(378)	(222)	(169)	(54)	(46)	(49)	(63)
Net cash from operating activities	122	259	206	283	283	290	436
Investment in new operations	(463)	(224)	(181)	(229)	(164)	(184)	(7)
Investment in property, plant and equipment	(31)	(58)	(32)	(39)	(64)	(50)	(17)
Disposal of preference shares			2 181				
Discontinuation of business							7
Dividends and interest received			50	202	205	218	203
Net cash from investing activities	(494)	(282)	2 018	(66)	(23)	(16)	186
Proceeds from issue of shares					2	7	8
Increase (decrease) in long-term borrowings	603	197		(3)	3		
Subordinated debenture repurchased			(2 181)				
Finance costs paid	(73)	(38)	(66)	(237)	(234)	(234)	(235)
Dividends paid	(158)	(148)	(164)	(163)	(124)	(120)	(129)
Net cash from financing activities	372	11	(2 411)	(403)	(353)	(347)	(356)
Net (decrease) increase in cash and cash equivalents	0	(12)	(187)	(186)	(93)	(73)	266

MISSION

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

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

ACHIEVING HUDACO'S MISSION

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

MEASUREMENT OF SUCCESS

We measure success through financial and non-financial assessments:

24

- **Shareholders** – the primary measures are financial and are detailed in the financial review on pages 24 to 29;
- **Customers** – growth in market share, measured where information is available and using customer satisfaction reviews;
- **Suppliers** – retention of significant brands, principal relationship reviews, benchmarking the market position of a brand in South Africa with its market position internationally;

64

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

65

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

56

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

BUSINESS MODEL

SOURCE

- Hudaco sources products from more than 750 international suppliers scattered across the industrialised world.
- We carry more than 225 000 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.

51, 55

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

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

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

GROUP VALUE ADD

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

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

ACQUISITIONS

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

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

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

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.

Our success factors

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

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 48 to 55. The following factors strengthen our ability to retain existing distribution rights:

48

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

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

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

- 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.
- We look for products with which we can add value through the distribution chain through stockholding, product availability and providing technical support. Typically, these would be technical specification, advice on usage or installation and customer training. The amount of value add is established by determining whether the customer's purchasing decision could be influenced by the addition of a technical support function.
- We focus on offering maintenance spares for critical customer equipment. Purchasing decisions for these items are made easily and quickly without onerous tender procedures.

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.

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.
- Preferably headquartered in Gauteng.

Key elements of our success:

Selling products which require **value to be added** and our **decentralised management** style.

Value add can be some or all of the following:

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

Decentralising management has the following advantages:

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

DISTRIBUTION

PRINCIPAL ACTIVITIES/PRODUCT RANGE

- Products are distributed throughout southern Africa by our approximately 30 businesses.
- We supply some 25 000 active customers from over 150 southern African branches (most of which are in South Africa).
- In most countries we supply through local distributors, but we have branches in Namibia, where we have a longer track record of doing business, and more recently in Zambia, Botswana and Zimbabwe.

62, 63

CONSUMER-RELATED PRODUCTS

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

ENGINEERING CONSUMABLES

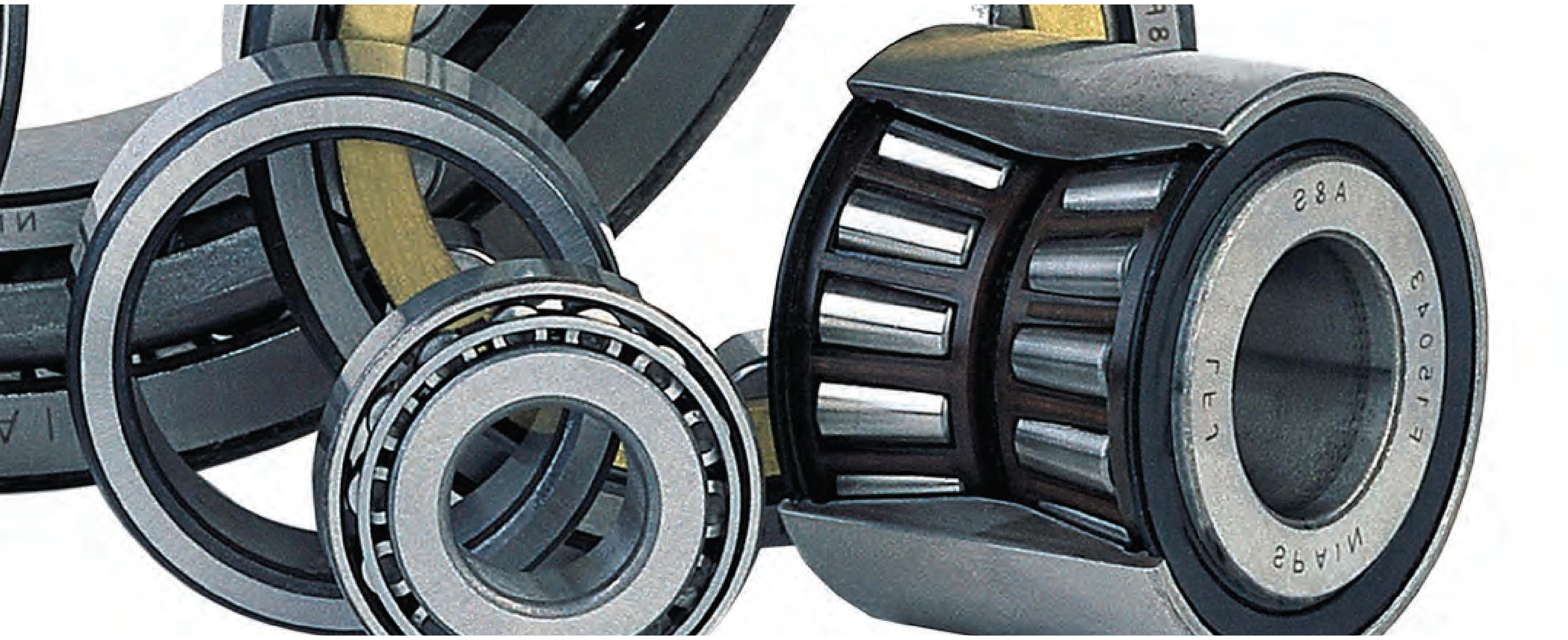
- Bearings
- Diesel engines and spares
- Power transmission products

JOINT REPORT OF THE CHAIRMAN AND CHIEF EXECUTIVE

Fundamental to our success in 2015 was a focused move into more resilient market segments through successful acquisitions that supplemented the performance of Hudaco's traditional businesses.

Graham Dunford
Chief executive

Royden Vice
Chairman



A TURNING POINT FOR THE GROUP

In its over 120-year existence, Hudaco has owned businesses that have become well known for supplying mainly imported engineering consumable products to southern African miners and manufacturers. However, over the past 25 or so years, the contribution these economic sectors have made to the overall GDP of the region has declined substantially. Mining and manufacturing comprised 11,3% and 29,6% respectively of South Africa's GDP in 1990, whereas today they comprise 8,6% and 13,0% respectively. Whilst we have been delighted with the returns (and cash flows) that the businesses serving these sectors have generated, they have (with one or two exceptions) unfortunately stagnated or declined in size under prevailing economic conditions. Unable to grow the core businesses organically as successfully as in the past, over the past decade or so Hudaco has used its acquisition strategy to reposition itself for the future by investing in businesses with a similar modus operandi to our traditional businesses, but predominately exposed to elements of consumer spending, an economic sector promising better growth prospects.

These 2015 results reflect a turning point in Hudaco's history, with a sharp swing away from dependence on the mining and manufacturing sectors. With the successful acquisition and integration of the Partquip group of businesses into the consumer- related products segment, this segment is, for the first time, the biggest contributor to group operating profit at 59%. The engineering consumables segment contributed only 41% of operating profit.

2015 OVERVIEW

The results, which we consider excellent, were achieved under the most challenging circumstances. 2015 has again been a very difficult year for the mining, manufacturing and agricultural sectors in South Africa. Whilst the world economic crisis which started in 2008 has resulted in the low commodity prices we have today, policy choices by the ANC government have made matters worse. It goes without saying that we are extremely concerned about the decline of these economic sectors given their importance to the country and the group but we are also concerned about the general state of governance in the country. The imminent downgrading of South Africa's debt to junk status will create hardship for millions of poorer South Africans as interest rates and inflation climb sharply. The lack of economic growth will limit government revenue collection whilst its expenditure seems pre-programmed to continue expanding exponentially.

Fundamental to our success in 2015 was a focused move into more resilient market segments through successful acquisitions that supplemented the performance of Hudaco's traditional businesses. The first half results were very good with CEPS up 32% over the prior period but we cautioned that this was measured against a period of protracted mining strikes in 2014 and included profits from a large project which we knew would not be repeated in the second half. In line with the economic malaise, sales in the months of August, September and October 2015 were very disappointing as business confidence in the country reached an all-time low.

JOINT REPORT OF THE CHAIRMAN AND CHIEF EXECUTIVE (CONTINUED)

Annual sales were up 17% to R5,2 billion whilst operating profit rose 23% to R605 million. Headline earnings per share were 1 163 cents whilst comparable earnings per share (which we regard as a more reliable indicator of ongoing earnings) were up 18,6% to 1 169 cents, compared with last year's 986 cents. The return on equity was a very respectable 21,8%.

The total dividend for 2015 has been increased 13% to 525 cents, covered 2,23 times by comparable earnings. Our policy remains to pay a dividend of around 40% of comparable earnings whilst erring on the side of generosity given the high cash flow characteristics of the group.

Our financial position remains healthy after the tax settlement of R312 million, of which the last R192 million was paid in 2015, and the cash paid for acquisitions. Hudaco's operations remain cash generative. The group had R1 016 million in net borrowings at year-end representing gearing of 54%. More importantly, interest payments were covered eight times by operating profits against our internal covenant of at least five times. The decline in the Rand exchange rate this year will result in sharply higher inventories as we replace stock at higher cost but much of this should be covered by the higher prices we receive on selling the current inventory. Although there is still capacity for acquisitions we will exercise caution as we expect interest rates to increase sharply in the months ahead.

Inventories have been well managed considering the 9,5% decline in the value of the Rand against our basket of currencies. They are up 20% to R1 369 million, but only 7% after taking into account the acquisition of the Partquip group and Berntel. The return on net tangible operating assets (RONTA) in 2015 is 38%, up on the 32% of last year and well above our pre-tax cost of capital, which is approximately 14%.

CONSUMER-RELATED PRODUCTS

Consumer-related products made up 50% of Hudaco's sales and 59% of operating profit. Partquip, our biggest business in this segment has bedded down well and had a very satisfactory first year in the group. Partquip distributes three product ranges; wheels (A-Line), specialised branded automotive aftermarket products (Partquip) and hardy offroad suspension and related automotive products (Ironman 4X4). Rutherford, the second biggest business in this segment also had a good year in an environment where construction activity and disposable income have been under considerable pressure. The primary brand distributed by Rutherford is Makita (power tools and garden equipment), a market leader in lithium ion battery technology. The alternative energy businesses had a rewarding year with Specialised Battery Systems and Deltec growing sales considerably. Global Communications managed to secure and deliver a major project in the first half of the year, which contributed to them being well up on last year. The disappointment in this segment came from our security businesses. Elvey Security Technologies had a difficult year but the main decrease was in the project business, Pentagon. The segment increased sales by 52% to R2,6 billion and operating profit by 77% to R380 million.

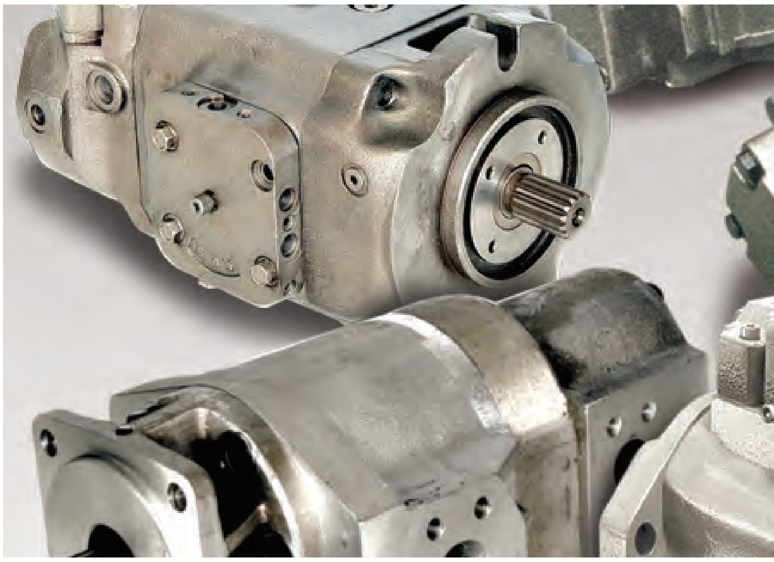
ENGINEERING CONSUMABLES

Engineering consumables made up the other 50% of sales but its contribution to the operating profit was down to 41%. The alternative energy side of this business – Deutz Dieselpower – which supplies alternators and engines for stand-by and continuous use electricity generators performed very well. However, the bearings and power transmission businesses, which serve the mining and manufacturing sectors, had a challenging year with low commodity prices, policy uncertainty, labour tribulations and a business unfriendly policy environment making it very difficult to do business. Ambro Sales, Bearings International, Bosworth, Ernest Lowe and Powermite were the most heavily impacted by the depressed conditions. All businesses in this segment performed adequately considering the economic circumstances with no business reporting a loss. We recognise that trading in this segment will remain depressed for the time being and that it will be near impossible to get meaningful organic growth in a segment of the economy that is clearly in decline. We have taken steps over the last 18 months to rightsize certain businesses to carry us through to the time when mining and manufacturing turn, and they will turn. We believe if we can continue to deliver a 10% return on sales in this segment as we have this year, we will have managed the business well in the meantime.

EXPORTS

Our exports are targeted at two regions: Africa (all business units) and the rest of the world (GPM & Bosworth).

Our neighbouring countries unfortunately also had a difficult year with commodity prices as low as they are. Many mines are on care and maintenance with very little additional investment. The majority of our Africa business is based on supplying the mining sector so we have not achieved the growth we had hoped for this year. We continue working on building cohesion between



our engineering consumables businesses in tackling African markets with a comprehensive product offering. The security and communication equipment businesses also had difficulties, successfully securing contracts in Africa that we declined to supply due to concerns about payment. Hudaco group sales into Africa this year were R60 million down 12% on 2014.

GPM manufactures and assembles a complete range of hydraulic SAE mounted cast iron pumps (rear, piston and PTO range, and associated components) which are known around the world for high quality and competitive pricing. A significant number of original equipment manufacturers have specified our product. Acquired by Hudaco in December 2013, it complements Hudaco's strategy to increase the group's revenue outside of South Africa's borders and more resources have been put behind this objective. Approximately 70% of GPM's production is exported to 37 countries around the world and 70% of those exports go to the United States of America. Whilst we have seen positive growth from the opening of a branch in the USA, Australasia exports are significantly down due to lower mining activity there. GPM will continue to focus on increasing export sales in 2015 as it rolls out a new distribution strategy in the USA, as well as working on increasing sales into Africa. Bosworth unfortunately had very little by way of export sales compared to last year due to the general lack of investment in mining worldwide.

Exports to the rest of the world amounted R97 million – 2% of Hudaco's total sales in 2015.

ACQUISITIONS

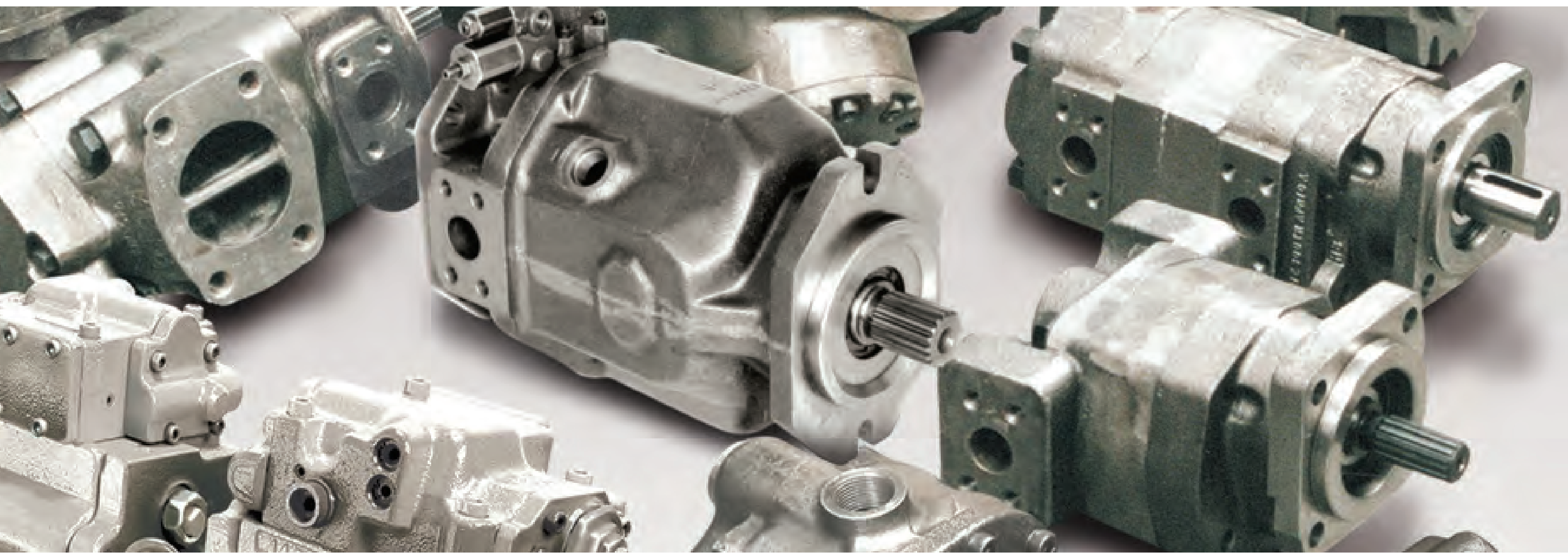
For the reasons given in the opening paragraph of this report, acquisitions have played an important role in Hudaco's growth strategy. Businesses acquired in the 2015 financial year contributed 153 cents to CEPS while all acquisitions made since 2010 contributed 61% of operating profit for the year.

As explained, 2015 was a turning point for Hudaco with the Consumer-related product segment being elevated to dominance in the group through the acquisition of Partquip, our largest acquisition to date.

The Partquip acquisition, effective from 1 December 2014 and therefore in these results for a full 12 months fulfils the board's target of making at least one large acquisition every two years. It is a very significant development for the group and we are happy to report that Partquip has integrated well into Hudaco's culture, and brings exciting prospects for growth away from mining and manufacturing.

A NEW MARKET – ALTERNATIVE ENERGY

Another important change and part of Hudaco's strategy to move away from its dependency on mining and manufacturing is a focus on serving the alternative energy market. This market has grown to the point where it warrants separate disclosure in our sales by market sector analysis. Ossie Carstens, a senior and longstanding member of the Hudaco executive committee is heading up the initiative, which currently comprises the Deutz generator engine business, Deltec and Specialised Battery Systems' innovative invertor and battery storage technology. We see this as a long-term growth sector as more and more consumers move to alternative energy, some because the world is going green and others because technical advances are making it more practical and cost effective. Although we expect Eskom to eventually be able to meet demand with the mooted nuclear build programme, it will be much more than a decade before it achieves this, whilst their supply prices are forecast to rise to among the highest in the world over the next few years. Thus more and more consumers will see alternative energy as a long-term solution to their needs.



JOINT REPORT OF THE CHAIRMAN AND CHIEF EXECUTIVE (CONTINUED)

INITIATION OF LEGAL PROCEEDINGS

The Hudaco group has instituted legal proceedings against Bravura Equity Services Proprietary Limited ("BES") (part of the Bravura group in South Africa), 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. Comprehensive information was announced on SENS on 10 November 2015. The grounds for the action include intentional misrepresentation and/or negligence. The Hudaco board firmly believes that Hudaco has been wronged, ultimately to the detriment of shareholders, and that from an ethical perspective to seek redress is the right thing to do. We recognise that the matter is unlikely to be resolved quickly and that it will be with us for some time to come. It will be managed by the head office team and will not detract management focus away from the day-to-day running of our businesses.

STRATEGIC FOCUS

Government's policy choices are making it increasingly difficult to do business in South Africa and we don't see this situation changing in the near future. Rather, it will in all likelihood get worse before reason prevails. As a result, we do not expect the economy to grow in the medium-term, which in turn makes it difficult to get earnings growth out of our existing business portfolio, although we expect prospects for our businesses serving the consumer driven and alternative energy sectors to be better than for those serving mining and manufacturing.

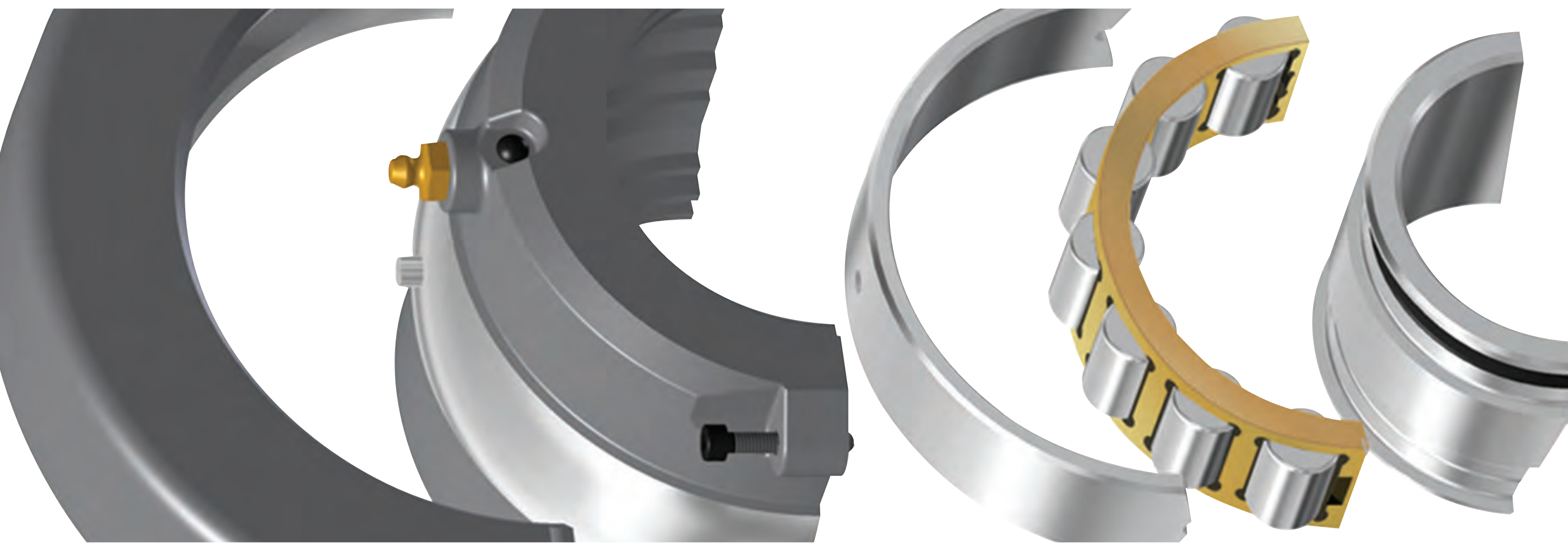
Focus will be different for the different businesses in the group given their particular market exposures and prospects. Nevertheless, priority will always be given to the management of the relationship between margins, inventories and costs. We will strive to ensure that we continue to add value to our product offering and to grow exports.

To supplement the expected pedestrian growth in the current economic environment, we remain acquisitive. For the time being we continue to seek acquisition opportunities within South Africa, but if prospects here do not improve then we may need to consider looking abroad in countries with better growth prospects and more settled politics. The thrust of our initiatives in Africa remains around servicing customers and appointing reliable distributors, rather than setting up significant operations in a myriad of African countries.

PROSPECTS

Notwithstanding the considerable challenges arising from the economic and political environment within which our businesses operated in the financial year under review, Hudaco remains a well-managed business and will continue to do what it has always done well, which is to manage the things over which we have control, whilst seeking out acquisitions and opportunities for growth.

As we said last year, until economic circumstances improve, we foresee only modest organic volume sales growth in South Africa and Africa (although volume sales to mining and manufacturing customers may have further to fall). Earnings in 2016 will nevertheless be impacted positively by a combination of factors: pricing to replacement on account of the weaker Rand, increased selling prices provided that margins can be maintained, cost reductions effected in 2015 and a contribution from further acquisitions as we will continue to explore opportunities for good acquisitions in all markets.



APPRECIATION

We thank the senior executives in all the businesses and their management teams for their sterling efforts in yet another challenging year for the group. There is excellent quality and a wealth of experience in the management of the group, not only among the members of the executive committee but at individual business level too. We appreciate the dedication and hard work of all our staff throughout the group. We believe that the results that they have produced are commendable.

We also value the co-operation and support from our loyal suppliers and customers, who are obviously also operating in difficult times. Thank you.

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

RT Vice
Chairman

GR Dunford
Chief executive

28 January 2016

STRATEGIC FOCUS

2015

Integrate Partquip acquisition	✓	
Improve returns from Bearings International	×	In progress
Increase sales into Africa	×	
Make small acquisitions	✓	
Further reduce dependency on mining industry	✓	

2016

- Improve returns from Bearings International
- Manage gross margins, expenses and working capital
- Increase sales into Africa
- Make small acquisitions
- Achieve branch synergies across businesses

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 2 980 people in Hudaco's approximately 30 businesses; and
- Principals/suppliers.

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 interim 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 national energy crisis, the weak economy, the strategy behind the acquisition of Partquip and, more recently, the legal proceedings instituted against the advisors to Hudaco's 2007 empowerment transaction arising from the challenge by SARS of the related financing arrangements. The relevance of the various sections of this report to the different classes of stakeholders is set out on the inside front cover.

STAKEHOLDERS' MATERIAL ISSUES

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

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

RISKS AND MITIGATION

KEY RISKS

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

Risk	Explanation	Potential exposure	Mitigation	Residual risk assessment/ probability	Associated opportunity
28 Foreign exchange rate risk – significant strengthening of the Rand	If the Rand strengthens, the purchase prices of our products drop and selling prices must be reduced to remain competitive. This reduces gross profit and since our expenses are Rand-based, they do not decline. Net operating profit decreases.	For each 10% by which the Rand strengthens, operating profit could decrease by R150 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 and diesel	The lack of electricity is a constraint on GDP, a significant driver for Hudaco, and is likely to remain an issue for several years. The mining industry, in particular, tends to be affected when electricity is in short supply. Diesel supplies may not be adequate to meet the additional demand.	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.	Some impact is being felt. This risk is integral to our strategy of supplying to industries that happen to have high electricity requirements.	Potential to sell batteries, inverters and generators to industry.
Credit risk	Although credit risk is well spread and larger debtors are usually blue chip, government now awards large contracts to new BEE entities, on which we have to take credit risk.	R40 million.	We manage the delivery process as closely as possible and strive to find other ways to minimise this risk.	Unlikely. This risk is a consequence of BEE procurement.	If managed well, there are significant opportunities in supplying the requirements of government.
56 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. Sales may be lost through not having adequate BEE credentials.	Unable to quantify.	The group transformation and human resources executive monitors legislation and charter requirements to keep our businesses abreast of new requirements. He helps to ensure the necessary certifications have been obtained by each business. Aspects such as ownership requirements are escalated to board level.	Less than even chance. This strategic risk is part of doing business in South Africa and is always front of mind in operations.	We have been able to grow the group through acquisitions because we offer strong BEE credentials to vendors. Also, as competitors are faced with the same BEE challenges, we are able to attract business from those that fall short of requirements.
Natural disaster at supplier or customer	A natural disaster could cripple a factory of a major supplier or the operations of a major customer.	R20 million.	We carry up to six months' stock which gives time to react to such an event. Major suppliers generally operate from several factories in different cities and/or countries. The loss of a factory could be disruptive to the supply of certain products but production would be quickly moved to other factories. The group has a widespread supplier and customer base and is not overly reliant on any single one. Insurance is held against supply interruptions.	Less than even chance. This is always a risk in a supply chain environment.	Natural disasters do not represent an opportunity to the group, except to the extent that those competitors whose suppliers do not have the same level of geographic diversification as ours may be affected more heavily.

Risk	Explanation	Potential exposure	Mitigation	Residual risk assessment/ probability	Associated opportunity
Loss of key executives in businesses or at group level	When members of the executive team retire or leave the risk is that transition could have a significant negative effect on the group. Some businesses are sold to us as an exit strategy for some of the existing owners. Succession planning and integration into the group is therefore vital for sustainability of the business.	Unable to quantify.	The group has a formal succession policy. Succession plans, emergency and planned, are considered annually by the remuneration and nomination committee. Members of the group executive team have developed in-depth knowledge of each business. Replacements for executives who retire are able to spend several months working under the guidance of their predecessors and experienced people are appointed to the executive committee when required. Earn-out periods keep vendors in acquired businesses to facilitate transition.	Highly unlikely. The risk is always prevalent but arises specifically through the strategy of growing the group by acquiring entrepreneurial businesses.	Retirement of members of the executive team creates visible opportunities to which the next level of management can aspire. This provides them with an incentive to prove their value through superior performance.
Loss of a major brand	While the portfolio of brands is diverse, there are two major brands the loss of which could have a significant effect on the results of the group. These brands, each of which contributes approximately 10% of group operating profit, would be hard to replace. The portfolio also includes several other important brands.	Up to R65 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 the two brands. The element we cannot mitigate is the risk that a major principal ceases to exist.	Highly unlikely. This risk follows from the strategy of representing quality major international brands.	There would not be an opportunity associated with the loss of one of the group's two major brands. The loss of a lesser brand may present an opportunity to bring into the portfolio a brand that has something more to offer.
Poor acquisition	Acquired business performs well below expectations or exposes the group to significant unexpected risks.	R150 million.	Approving acquisitions on the basis of thorough due diligence reviews conducted by professionally qualified advisors and by our own experienced acquisitions team.	Unlikely. This risk is introduced by the strategy to grow the group by acquisition.	Quality acquisitions add significant value to the group.
Sustained labour unrest in the mining or manufacturing sectors	Of group turnover, currently 13% is sold directly to the mining industry and 18% into manufacturing, much of which is to service the mining industry.	R40 million.	The group has a diverse customer base both within and outside of mining. It is unlikely that all types of mining will be affected.	Better than even chance.	This provides an incentive to further diversify the customer base through extending our range of products and customer geographies.
Ineffective insurance	The risk that there is a major loss (eg through fire) and that the insurance claim is not met because the policy was defective or the insurer fails.	R120 million.	Insuring through reputable long-established underwriters and engaging high-quality insurance brokers as advisors.	Unlikely.	No associated opportunity.
Increase in interest rates	Acquisitions have been funded through borrowings, which introduces the risk that finance costs will go up if market interest rates increase.	R20 million per annum if the JIBAR increases by 2% per annum.	Effective management of working capital to minimise exposure. Other forms of raising funds for acquisitions can be considered.	Likely.	Higher interest rates could have the effect of reducing prices of businesses for sale.

BOARD OF DIRECTORS

NON-EXECUTIVE DIRECTORS

ROYDEN VICE (69)

BCom, CA (SA)

Independent non-executive chairman of the board and the nomination committee and member of the remuneration committee

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

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

NONYAMEKO "NYAMI" MANDINDI (49)

BSc (Quantity Surveying)

Independent non-executive director, member of the audit and risk management committee

Nyami started her career as one of the first black female quantity surveyors in South Africa. As one of the founding partners of a QS firm in the 1990s, she contributed to the growth of the firm to one of the top five quantity surveying businesses in SA. She has also been involved in various large infrastructure and property development initiatives including the OR Tambo Airport, Monte Casino, Gautrain, the Sandton Convention Centre, Maputo corridor and several public transport facilities. She has vast operational experience and has recently stepped down as CEO and Business Line Director Southern & East Africa of Royal Haskoning DHV, where she was part of the global leadership team, leading the Africa Growth Strategy.

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

Nyami joined the board on 1 June 2015.

STUART MORRIS (70)

BCom, CA (SA)

Independent non-executive director, chairman of the audit and risk management committee, chairman of the remuneration committee and member of the nomination committee

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

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

Stuart joined the board in 2009.

DHANASAGREE "DAISY" NAIDOO (43)

Masters in Accounting (Taxation), CA (SA)

Independent non-executive director, member of the audit and risk management committee and chairman of the social and ethics committee

Daisy serves as an independent non-executive director on the boards of Anglo American Platinum, Mr Price Group, Marriott Unit Trust Management Company, Old Mutual Unit Trust Managers, Old Mutual Alternative Risk Transfer, Old Mutual Wealth, STRATE, and Omnia Holdings. In addition, she chairs the audit committees of: Mr Price, STRATE and Old Mutual Wealth. She is also a member of the Tax Court of South Africa and a trustee of the Discovery Medical Aid Scheme and the South African Investors Protection Fund.

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

Daisy joined the board in March 2011.

STEPHEN CONNELLY (64)

ACMA

Non-executive director

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

Stephen joined the board in 1992.

EXECUTIVE DIRECTORS

GRAHAM DUNFORD (51)

N Dip: Mechanical Engineering

Chief executive and executive committee chairman

Graham joined Hudaco in 2001 when it purchased Bauer Geared Motors, where he was the managing director. He became CEO: Electrical power transmission in 2005, CEO: Power transmission in 2009 and CEO: Bearings and power transmission in 2010. He was appointed group chief executive in July 2014.

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

CLIFFORD AMOILS (54)

BCom, BAcc (Cum laude) CA (SA)

Group financial director and member of the executive committee and social and ethics committee

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

He joined the board in 2009.

EXECUTIVE COMMITTEE

GRAHAM DUNFORD (51)

N Dip: Mechanical Engineering

Chief executive

27 years' service

CLIFFORD AMOILS (54)

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

Financial director and non-executive chairman of Elvey Security Technologies

Seven years' service

JONNY MASINGA (38)

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

Group executive: Transformation and human resources

Five years' service

OSSIE CARSTENS (50)

N Dip: Mechanical Engineering;
GCC (Mechanical); MBA

CEO Deutz Dieselpower and non-executive chairman of Belting Supply Services, Deltec and SBS and Group Executive: Occupational Health and Safety

Seven years' service

CHIEF EXECUTIVE

CONSUMER-RELATED PRODUCTS

AUTOMOTIVE

- Abes Technoseal
- Deltec
- Partquip
- Specialised Battery Systems

SECURITY EQUIPMENT

- Elvey Security Technologies
- Pentagon

COMMUNICATION EQUIPMENT

- Global Communications

POWER TOOLS

- Rutherford

ENGINEERING CONSUMABLES

BEARINGS AND POWER TRANSMISSION

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

DIESEL ENGINES AND SPARES

- DD Power
- Deutz Dieselpower

REANA WOLMARANS (49)	JACK EDERY (64)	BARRY FIELDGATE (54)	DAVID ALLMAN (57)	BRIAN CONSTANÇON (62)
BProc, LLB, HDip: Labour Law	*BCompt (Hons), CA (SA)*		*S.A.I.M. Dip: Marketing Management/ Production Management*	*BCom, BAcc, CA (SA)*
Group secretary	CEO Elvey Security Technologies and Pentagon	CEO Berntel, Bosworth,Ernest Lowe, Filter and Hose Solutions and Global Communications. Exzecutive: Africa Development	Chairman of Bearings International and Bauer, CEO Abes Technoseal, Astore Africa and Keymak	CEO Electrical Power Transmission and Steel
Seven years' service	20 years' service	Eight years' service	29 years' service	33 years' service

Service is with Hudaco and businesses acquired.

GROUP SERVICES

FINANCE

Accounting
Finance
Risk
Tax
Treasury

HUMAN RESOURCES

Human Resources
Occupational Health and Safety
Transformation

COMPLIANCE

Group secretarial

AFRICA

Africa development

FINANCIAL REVIEW

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

Clifford Amoils
Financial director

MEASUREMENT OF FINANCIAL PERFORMANCE

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

- Settlement in 2014 of the tax challenge of R312 million, representing 986 cents per share in that financial year.
- 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.
- Profits and/or losses that arose because the results of businesses acquired in recent years were different from the estimate we made at acquisition for initial recognition, resulting in a smaller or larger earn-out payment than estimated. The revised IFRS 3 requires that, where a business is acquired on the basis of a contingent purchase consideration, changes to the estimated purchase price be recognised in profit for the year. The accounting is counter intuitive because a loss arises when the acquired business performs better than expected and a profit arises where it underperforms expectations. In 2015 the loss decreased earnings per share by 7 cents, compared with an increase of 7 cents in 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 2015 is 1 169 cents as compared to 986 cents in 2014. Compound growth in comparable EPS over the past 10 years has been 11%, from 409 cents in 2005.
- Hudaco aims to achieve earnings growth at a rate at least in line with the earnings of the All Share Industrial Index (J257). Since 2005, earnings in the J257 showed compound growth of 12,4%. To achieve this, we encourage our businesses to grow while producing a return over time exceeding the cost of capital. Our failure to outperform or at least match the growth in the industrial index is indicative of the difficulties in achieving growth with the turmoil in what had been our core markets for so much of the 10-year period – mining and manufacturing.
- Return on equity is an important measure at group level. We target to achieve ROE of a minimum of 18% but strive to reach 24%. The ROE in 2015 was a credible 22%.

FINANCIAL REVIEW (CONTINUED)

- The main operating performance measure used by the group is RONTA – the return (PBITA) on average net tangible operating assets (NTOA) employed during the year. NTOA is total assets excluding investments, goodwill, intangibles and cash, less current liabilities excluding interest-bearing debt. Each business is measured against its own benchmark – its objective being to maximise its RONTA by managing the balance between the operating profit margin (%) and net operating asset turn (times). The lower the operating profit margin, the higher the net operating asset turn has to be to achieve a return exceeding the cost of capital.

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

A RONA of 14% roughly equates to the pre-tax cost of capital at current interest and income tax levels. We use this as the 'hurdle rate' for new investments. We have set an internal target of RONTA of no less than 30% for the group as a whole. In 2015 the return on net tangible operating assets was 38% (2014: 32%).

DIVIDENDS

Hudaco's long-term dividend policy is to pay interim and final cash dividends to shareholders totalling approximately 40% of comparable earnings, resulting in dividends being covered by earnings by about 2,5 times. This year's dividends per share total 525 cents, 13% up on the 465 cents paid last year, and are made up of an interim dividend of 180 cents and a final dividend of 345 cents. The result of maintaining the dividends in 2013 and 2014 in spite of the increased tax charge that arose from the unwinding of the financing arrangements pertaining to the group's BEE structure was that the dividends represented 47% of comparable earnings in 2014. The board made it clear at the time that it was the intention not to decrease the dividend, even though the cover was lower than usual but rather to allow the cover to reach normal levels through growth in earnings. To this end, the 2015 dividends represent 45% of comparable earnings.

CASH FLOW

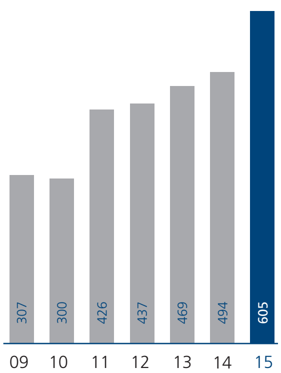
Hudaco businesses are cash generative. The steep decline in the Rand this year against the basket of currencies we purchase has meant that our imports are costing approximately 9,5% more than at the end of 2014. This has absorbed cash into inventories but will release cash with added margin when the goods are sold in due course. The decline in the mining and manufacturing sectors towards the end of the financial year and the general economic stagnation have inhibited the generation of cash from certain businesses but that is transient and not endemic to the business model. Other of our businesses have compensated for this with very strong cash flows.

Cash flow from operating activities of R314 million, after investing R153 million in working capital and paying R186 million in taxation (excluding the final tax settlement payment of R192 million), was strong and once again demonstrates the cash-generative nature of Hudaco's businesses. R158 million was paid out as dividends, finance costs were R73 million and R31 million was spent on property, plant and equipment. R466 million was invested in new businesses, which included earn-out payments and this was funded by an increase in long-term borrowings of R603 million. Net short-term borrowings were unchanged at R216 million.

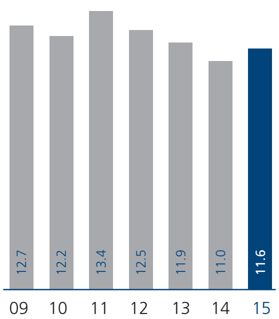
BORROWINGS

For several years Hudaco was accused of having a "lazy balance sheet" and hence was keen to introduce significant but conservative financial gearing. It sought acquisition opportunities accordingly. At 30 November 2015, net borrowings amounted to R1 016 million, after the acquisitions in 2015 and 2014 of Partquip, Dosco, Joseph Grieveson and Specialised Battery Systems. During the year, Hudaco contracted for a R600 million evergreen revolving credit facility, 50% thereof with each of Rand Merchant Bank and Standard Bank, at an interest rate of JIBAR plus 1,60%. Most of this was used to finance the acquisition of Partquip. We also renegotiated our revolving credit facility with Absa, extending it by R200 million to R500 million at a reduced interest rate of JIBAR plus 1,44%, with a view to further acquisitions. The banks are required to provide 367 days' notice should they wish to call up the facility but Hudaco has full flexibility to make repayments and to redraw funds.

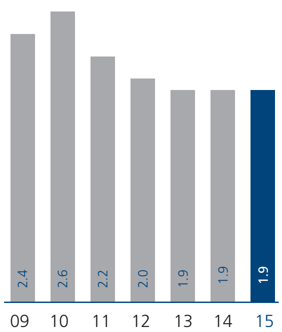
OPERATING PROFIT (RM)



OPERATING PROFIT MARGIN (%)
OPERATING PROFIT/TURNOVER

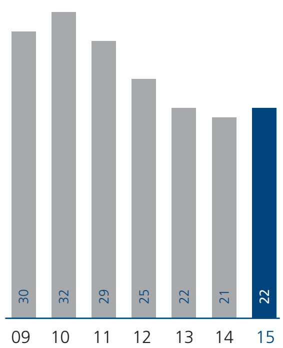


NOA* TURN (TIMES)
TURNOVER/AVERAGE NOA



** Net operating assets.*

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



Hudaco has the capacity to take on more senior debt and our acquisition strategy may create the opportunity to do this in future. During the year the remaining R192 million of the tax settlement was settled from cash generated by operations. 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. For some time our capacity to borrow was impacted by perceptions arising from the challenge by SARS and we are pleased that this is no longer the case.

TAXATION

The group's effective rate of taxation this year is 27% (2014: 28% excluding the tax settlement). There are no existing factors that would result in the rate varying significantly from the standard rate.

The gross contribution to government in South Africa, comprising direct and indirect taxation, amounts to R509 million (2014: R719 million) for the year ended 30 November 2015. The composition of this figure is set out in the value added statement on page 30.

30

FINANCIAL RISK MANAGEMENT

18, 19

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.

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

GROUP SERVICES

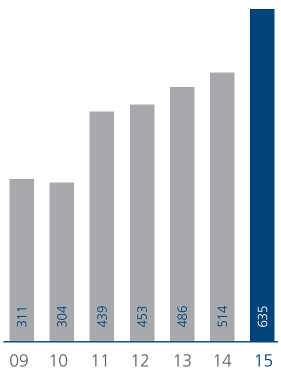
Services currently handled at head office, and provided free of charge to operating businesses, are tax, company secretarial, treasury (including foreign exchange and hedging), insurance, employee benefits and group risk (including internal audit and IT governance). Buying foreign exchange through head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

IMPACT OF CHANGES IN FOREIGN EXCHANGE RATES

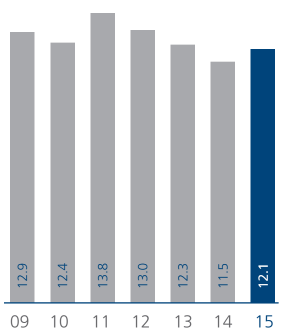
As Hudaco is predominately an importer, prices charged are linked to the Rand exchange rate. While Hudaco's sales line is affected by exchange rate movements, the group's expense line is affected by the local rate of inflation. This imbalance represents a real risk that sales could fall in response to a strengthening Rand whilst expenses, driven by local inflation, continue to rise. The result would be a margin squeeze. We estimate that a 10% strengthening of the Rand could, without management intervention, result in a R150 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. 2015 has seen a significant devaluation of the Rand. We live in very interesting times.

Over time, one would expect the Rand to weaken by the inflation differential between South Africa and its trading partners, allowing us to pass on imported inflation to our customers at roughly the same rate as the local inflation rate. As we are 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.

PBITA** (RM)

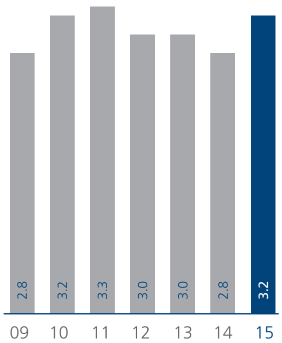


PBITA MARGIN (%)
PBITA**/TURNOVER



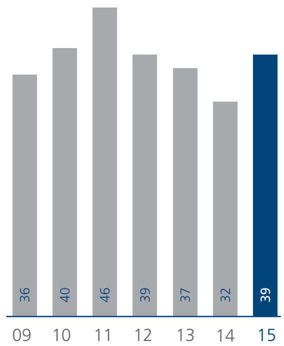
** *Operating profit before amortisation.*

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



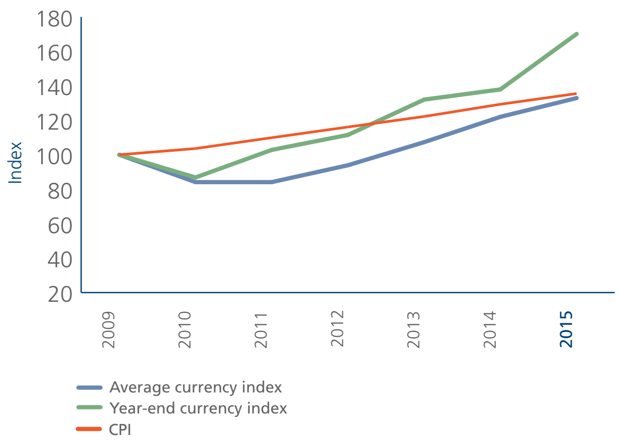
****Net tangible operating assets.*

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



FINANCIAL REVIEW (CONTINUED)

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



The Rand depreciated significantly against the US Dollar over the 2014 and 2015 financial years, which has been most welcome, but, until late in 2015, it appreciated against currencies of other developed economies. The volatility the currency has experienced has made pricing a challenge and margins have been kept under pressure, particularly in the weak economic environment that the region has experienced, driven primarily by low-commodity prices and political uncertainty. The impact of the precipitous fall in the value of the Rand following the surprise changes in finance minister has yet to be felt in Hudaco's results. The graph above shows how the weighted exchange rate index for the basket of currencies that Hudaco purchases has moved relative to the consumer price index (CPI). There is a larger US dollar component than previously in our basket of currencies, which on average cost 9,5% more in 2015 than in 2014.

We have taken 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, approximately 30% of orders on suppliers are also hedged to guard against spikes in exchange rates.

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.

ILLUSTRATION OF THE IMPACT ON THE GROUP OF A 10% CHANGE IN THE EXCHANGE RATE WITHOUT MANAGEMENT INTERVENTION

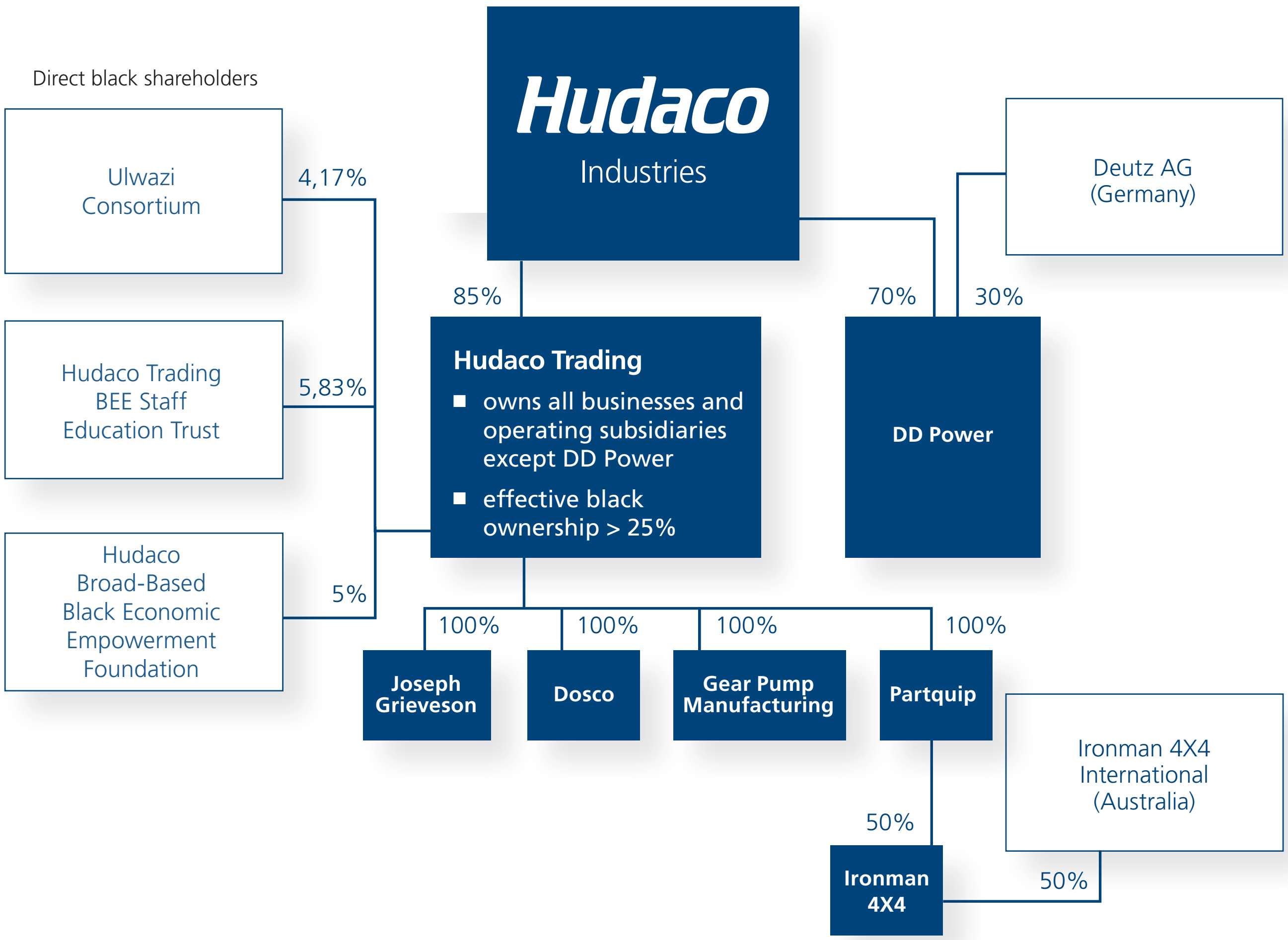
Scenario	Base case	Rand strengthens 10%	Rand weakens 10%
Sales	100	90	110
Cost of goods	60	54	66
Gross profit	40	36	44
Operating costs	30	30	33
Operating profit	10	6	14

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 41.

41

ABRIDGED GROUP STRUCTURE



VALUE ADDED STATEMENT

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

GROUP VALUE ADDED STATEMENT

R million	2015	2014
Turnover	5 230	4 480
Less: Cost of materials, facilities and services from outside	3 631	3 113
Value added	1 599	1 367
Capital items	(2)	2
Income from joint venture	3	
Total wealth created	1 600	1 369
Distributed to:		
Employees – salaries, wages and other benefits	924	819
Government (gross contributions)	509	719
Indirect contributions, duties and levies	(368)	(280)
Net finance costs	76	39
Shareholders – dividends	158	148
Maintain and expand the group		
– profits retained (applied)	231	(130)
– depreciation and amortisation	70	54
Total wealth distributed	1 600	1 369

STATEMENT OF GROSS CONTRIBUTIONS TO THE GOVERNMENT IN SOUTH AFRICA

R million	2015	2014
Company income tax	141	127
Settlement of tax dispute		312
Customs and excise duty	90	49
Skills development levies and assessment rates	9	10
Value added tax not recognised as input credit	3	5
Direct contribution to government	243	503
Add the following collected on behalf of the government:		
Value added tax (net)	130	106
Employees' tax	136	110
	509	719

CORPORATE GOVERNANCE

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

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

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

APPLICATION OF AND COMPLIANCE WITH KING III

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

EXCEPTIONS TO KING III

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

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

An internal assessment of the application of King III and levels of compliance is set out in table form on page 45 of this integrated report. A detailed report of Hudaco’s application of and compliance with the 75 King III principles is set out on the Hudaco website.

OUR GOVERNANCE FRAMEWORK

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

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

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

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

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

CORPORATE GOVERNANCE (CONTINUED)

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

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

BOARD OF DIRECTORS

BOARD COMPOSITION

Hudaco has a unitary board structure, comprising seven directors. Four are independent non-executive directors, one non-executive director and the remaining two 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. During the reporting period, Paul Baloyi resigned on 19 March 2015 and was replaced by Nyami Mandindi on 1 June 2015.

20, 21

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

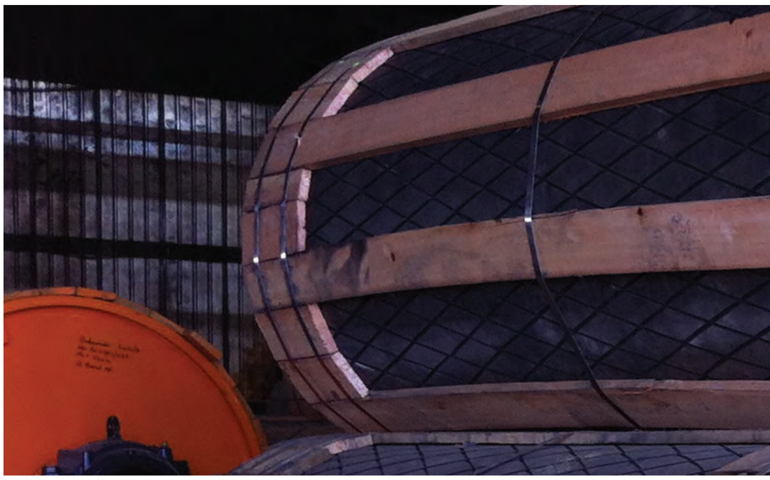
The board functions effectively and efficiently and is considered to be of an appropriate size and balance for the group, taking into account, among other considerations, the need to have a sufficient number of directors to structure the board committees appropriately, regulatory requirements as well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

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

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

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

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



who regularly reports to the board on the group's objectives and strategy.

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

INDEPENDENT NON-EXECUTIVE DIRECTORS

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

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

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

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

All the other non-executive directors are independent.

THE ROLE OF THE BOARD AND BOARD PROCEDURES

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

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

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

Board meetings are scheduled well in advance and board documentation is provided timeously. Tabling documents at board meetings is the exception rather than the rule. The board agenda and meeting structure assist the board in focusing on corporate governance, its legal and fiduciary duties, group strategy and

performance monitoring, thus ensuring that the board's time and energy is appropriately applied.

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

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

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

BOARD CHARTER

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

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

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

BOARD MEETING ATTENDANCE 2015

	Jan	Mar	Jun	Oct
RT Vice	✓	✓	✓	✓
CV Amoils	✓	✓	✓	✓
PC Baloyi *	✓	n/a	n/a	n/a
SJ Connelly	✓	✓	✓	✓
GR Dunford	✓	✓	✓	✓
N Mandindi **	n/a	n/a	✓	✓
SG Morris	✓	✓	✓	✓
D Naidoo	✓	✓	✓	✓

** Resigned 19 March 2015*

*** Appointed 1 June 2015*

BOARD APPOINTMENTS

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

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

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

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

SUCCESSION PLANNING

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

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

BOARD COMMITTEES

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

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

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

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

REPORT OF THE REMUNERATION COMMITTEE

INTRODUCTION

The members of the committee for the year under review were: Paul Baloyi, chairman until his resignation on 19 March 2015, Stuart Morris and Royden Vice, all being independent non-executive directors. Stuart Morris is currently the chairman of the committee.

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

The committee operates under a board-approved mandate and terms of reference, which were reviewed in 2015. 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 2015

	Jan	Jun
PC Baloyi *	✓	n/a
SG Morris	✓	✓
RT Vice	✓	✓

** Resigned 19 March 2015*

ROLE OF THE COMMITTEE

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

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

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

GROUP REMUNERATION POLICY

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

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

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

OVERVIEW OF SENIOR MANAGEMENT REMUNERATION

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

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

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

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

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

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

CORPORATE GOVERNANCE (CONTINUED)

At the annual general meeting held on 27 March 2015, shareholders endorsed, through a non-binding advisory vote to ascertain shareholders' views, Hudaco's remuneration policy and its implementation. Discussions with larger shareholders have revealed differing requirements and preferences for measurement criteria and other aspects. It is a challenge to satisfy the disparate preferences.

FIXED GUARANTEED REMUNERATION

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

At least every two years the committee engages independent remuneration consultants to benchmark executives' remuneration against an appropriate peer group and to provide input on recent trends. This was done in June 2014 by Khokhela Consulting. No executive receives remuneration outside the band recommended by our consultants.

SHORT-TERM PERFORMANCE-BASED REMUNERATION

Short-term performance-related remuneration for the chief executive and the financial director is currently based primarily on the achievement of earnings per share growth and a predetermined return on equity range, which is capped. For 2016 no ROE bonus will be paid if ROE is below 14%. As a stretch target, the cap will be reached at ROE of 24%. The payment for earnings growth is not capped but is subject to partial claw-back.

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

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

For 2015, in respect of the chief executive up to 152% and the financial director up to 125% of fixed remuneration (if the stretch target is met) is paid as performance-related remuneration in the year in which it is earned. Half of the payment for achieving earnings growth above 15% is paid in the year in which it is earned whilst the other half is carried forward and paid the following year but will be "clawed-back" if certain conditions have not been met. For other senior managers the percentage is up to 80% – otherwise the same rules apply.

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

At its meeting in January 2016, the committee reviewed the performance of its businesses and executives and approved the payment of bonuses in accordance with the parameters for 2015. It also set the above parameters for the 2016 incentive schemes.

		Achieved – 2015	
Measurement	Target	GR Dunford	CV Amoils
Return on equity	Minimum – 14% Primary – 18% Stretch – 24%	21,8%	21,8%
Increase in ceps	Minimum – 10% Primary – 15% Stretch – uncapped but subject to clawback	18,6%	18,6%
Personal non-financial objectives	25%	80% thereof	80% thereof

LONG-TERM REMUNERATION

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

In 2006 the group introduced a share appreciation bonus scheme. Share appreciation bonus rights are awarded every year. Participants in the scheme are paid a bonus, settled in Hudaco shares (which Hudaco acquires on the open market for that purpose) and equal to the appreciation in the market value of a pre-determined number of Hudaco shares following each of the third, fourth and fifth years after the award. Participants may elect to defer the right to the bonus for up to four years after vesting. The number of rights awarded to directors and senior managers is based on their level of seniority and fixed guaranteed remuneration. The performance requirement for awards to vest is set by the committee and normally requires the achievement of a cumulative increase in comparable headline earnings per share of CPI plus 5% per annum between the date of the award and the vesting date.

Share appreciation rights are awarded to executive directors, senior managers and the level of employees directly below the senior managers. In 2015, 710 300 share appreciation rights were awarded to a total of 184 people.

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

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

EXECUTIVE DIRECTORS' REMUNERATION

Details of executive directors' remuneration are set out in note 27 to the financial statements. A graph showing the correlation between executive directors' remuneration and earnings per share is set out below.

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

DIRECTORS' INTERESTS IN THE SHARE APPRECIATION BONUS SCHEME AND SHARE MATCHING SCHEME

Details of the directors' interests can be found in note 27.1 to the financial statements.

SERVICE CONTRACTS

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

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

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

NON-EXECUTIVE DIRECTORS' REMUNERATION

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

The non-executive directors are paid a base fee and are required to forfeit a specific penalty for non-attendance of a meeting. The fees and penalty amounts were approved by the shareholders on 27 March 2015 for the period 1 April 2015 until 31 March 2016.

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

The board recommends the fees payable to the chairman and non-executive directors for approval by the shareholders. Proposals for fees are prepared by management, for consideration by the remuneration and nomination committee and the board. Consideration has been given to the significant responsibility placed on non-executive directors due to the progressively burdensome legal and regulatory requirements and the commensurate risks assumed. Benchmarking information of companies of similar size and complexity are factors considered when reviewing the annual fees. At Hudaco's annual general meeting to be held on 9 March 2016, shareholders will be requested to approve the non-executive directors' fees for the period 1 April 2016 until 31 March 2017 as outlined in the notice of the annual general meeting.

Non-executive directors' fees for the year ended 30 November 2015 are reflected in note 27.3 to the financial statements.

THE NOMINATION COMMITTEE

The members for the period under review were Royden Vice (chairman), Stuart Morris and Paul Baloyi, until he resigned on 19 March 2015.

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;
- directors are appointed through a formal process;
- induction and ongoing training and development of directors takes place; and
- formal succession plans for the board, chief executive and senior management are in place.

Aspects that are considered with regard to board composition include whether the candidates would enable the company to:

- maintain a mixture of business skills and experience relevant to the company and balance the requirements of transformation, continuity and succession planning; and
- comply with corporate governance requirements in respect of matters such as the balance between executive, non-executive and independent non-executive directors on the board.

CORPORATE GOVERNANCE (CONTINUED)

The committee also provides assurance to the Hudaco board that the independent non-executive directors offering themselves for election as members of the Hudaco audit and risk management committee, collectively:

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

Board and committee assessments are conducted annually in the form of written responses and/or a one-on-one interview conducted by the chairman with each member of the board. The chairman's assessment is conducted by the board while the chief executive's assessment is conducted first by the nomination committee and then the board. Issues identified by individual board or committee members will be addressed during 2016.

NOMINATION COMMITTEE MEETING ATTENDANCE 2015

	Jan	Jun
RT Vice	✓	✓
PC Baloyi *	✓	n/a
SG Morris	✓	✓

** Resigned 19 March 2015*

AUDIT AND RISK MANAGEMENT COMMITTEE

The members of the committee during the 2015 financial year were Stuart Morris (chairman), Daisy Naidoo, Nyami Mandindi from 1 June 2015 and Paul Baloyi, until he resigned on 19 March 2015. Daisy Naidoo will take over as chairman after the forthcoming AGM. Stuart Morris will remain a member of the committee.

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

Meetings are held at least three times a year and the chairman of the board, the chief executive, financial director, the head of internal audit and representatives from the external auditors attend committee meetings by invitation. The committee functions under written terms of reference which were most recently reviewed in March 2015.

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

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

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

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

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

- It nominated the audit firm Grant Thornton and audit partner Vanessa de Villiers for appointment by the shareholders at the forthcoming annual general meeting as the auditor for the 2016 financial year. The committee is satisfied that the firm and the individual auditor are independent of the company and are accredited as auditors on the JSE's Register of Auditors.
- Budgeted audit fees for the financial year ended 30 November 2015 were approved and the scope of the proposed audit work was agreed.
- Any non-audit-related services to be performed by the external auditors require the approval of the audit committee on a case-by-case basis. The overarching criterion for approval being that the independence of the external auditors should not be impaired through the provision of services under consideration. It was agreed that there will be a rebuttable presumption that non-audit fees totalling up to 25% of the budgeted annual audit fees will not alone impair the independence of the auditors.
- The committee confirmed the independence of the internal audit function and satisfied itself that internal audit is functioning effectively.

CORPORATE GOVERNANCE (CONTINUED)

- The internal and external auditors have unrestricted access to this committee. Members of the committee are also afforded the opportunity to meet with the head of internal audit and the external auditors without management being present.
- The committee reviewed the interim and annual financial statements and approved them for submission to the board. This review included a consideration of the estimates, judgements and assumptions set out in note 2 to the financial statements.
- No complaints have been received relating to the accounting practices and internal audit of the company or to the content or auditing of the company's financial statements or its internal financial controls, or to any related matter.
- In terms of paragraph 3.84(h) of the JSE Listings Requirements, the committee has satisfied itself that the expertise and experience of the financial director are appropriate.

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

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

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

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

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

The key risks faced by the group are described on pages 18 and 19 of this integrated report.

18, 19

AUDIT AND RISK MANAGEMENT COMMITTEE MEETING ATTENDANCE 2015

	Jan	Jun	Oct
SG Morris	✓	✓	✓
PC Baloyi *	✓	n/a	n/a
N Mandindi **	n/a	✓	✓
D Naidoo	✓	✓	✓

** Resigned 19 March 2015*

*** Appointed 1 June 2015*

FINANCIAL CONTROL AND RISK MANAGEMENT

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

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

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

INTERNAL CONTROL FRAMEWORK

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

INTERNAL AUDIT

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

This department has complied with its brief, which is to conduct a formal review of the effectiveness of all the group's systems of internal control over a three-year cycle, with major systems in all businesses reviewed annually.

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

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

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

RISK

The board assesses the risks in the group's business environment with a view to eliminating or reducing them in the context of the group's strategies, operations and risk appetite. The board has confirmed its acceptance of the group's risk management processes and is satisfied that all risks are appropriately governed. The key risks faced by the group are described on pages 18 and 19 of this integrated report. The group's annual internal audit plan incorporates the outcomes of the risk management process.

18, 19

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.

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 November 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, as announced in detail on SENS on 23 January 2015. The grounds for the action include intentional misrepresentation and/or negligence.

Ernest Lowe became aware that some of its employees may have been involved in a transgression of the Competition Commission Act in respect of a minor portion of its business. It drew the matter to the attention of the Competition Commission, submitted a leniency application and co-operated fully with the Competition Commission in its investigation. The leniency application was successful so no action will be taken against Ernest Lowe. Procedures have been implemented to prevent a recurrence and all businesses in the group have been advised to ensure the same problem does not arise.

INFORMATION TECHNOLOGY

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

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

CORPORATE GOVERNANCE (CONTINUED)

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

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

EXECUTIVE COMMITTEE

The members of the committee are: Graham Dunford, (chairman), David Allman, Clifford Amoils, Ossie Carstens, Brian Constançon, Jack Edery, Barry Fieldgate, Jonny Masinga and Reana Wolmarans. Other senior managers attend these meetings from time to time by invitation.

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

EXECUTIVE COMMITTEE MEETING ATTENDANCE 2015

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

REPORT OF THE SOCIAL AND ETHICS COMMITTEE

COMPOSITION AND TERMS OF ENGAGEMENT

The members of the committee during the 2015 financial year were Daisy Naidoo (chairman), Clifford Amoils and Graham Dunford. During the last meeting in October 2015, Graham Dunford stepped down and was replaced by Brian Constançon. Nyami Mandindi will take over as chairman after the forthcoming AGM. Daisy Naidoo will remain a member of the committee.

The chairman of the committee is an independent non-executive director, while the other two members are respectively an executive director and a senior manager. 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, Ossie Carstens and the environment, Mike Allnut. 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 impacts;
- consumer relations; and
- labour and employment, including skills development.

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

ROLE AND RESPONSIBILITIES

During the 2015 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; and
- environmental impact.

The committee confirms that no material issues were identified during this review. At the forthcoming annual general meeting, scheduled to take place on 9 March 2016, 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.

SOCIAL AND ETHICS COMMITTEE MEETING ATTENDANCE 2015

	Mar	Oct
D Naidoo	✓	✓
CV Amoils	✓	✓
GR Dunford	✓	✓
BJM Constançon *	n/a	✓

** Appointed 10 October 2015*

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.

CORPORATE GOVERNANCE (CONTINUED)

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 2015 the board considered and was satisfied with the competence, qualifications and experience of the group secretary, Reana Wolmarans. They concluded that an arm's length relationship had been maintained between the board members and the group secretary as required by the JSE Listings Requirements. This conclusion was based on the fact that she performs her role independently from the board or any individual board member and without the directors having an undue influence over her.

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 75.

75

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 requires 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, 17

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 acted as the company's sponsor during the year under review.

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

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

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

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

KING III GAP ANALYSIS

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

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

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

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

REVIEW OF OPERATIONS

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 significant fall in the Rand rate of exchange (by 30% against the US Dollar) in 2015 (following on 9% in 2014) and by 9,5% against Hudaco's basket of currencies will inevitably result in price increases of the same magnitude. The full impact of any decline in the Rand on prices generally takes about six months to be fully effective.

SALES BY MARKET SECTOR – 2015

CONSUMER-RELATED PRODUCTS (%)		ENGINEERING CONSUMABLES (%)
5	Manufacturing	32
30	Automotive	6
21	Wholesale and retail	15
1	Mining	25
9	Exports	11
17	Security	0
11	Alternative energy	1
1	Construction	5
5	Public sector	0
0	Agriculture	4
0	Other	1

CONSUMER-RELATED PRODUCTS

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

This segment comprises the following main businesses and activities:

- Partquip distributes automotive spares and accessories, wheels and Ironman 4X4 accessories.
- Rutherford distributes Makita industrial power tools, Mercury marine engines, survey equipment and nuclear gauges.
- Elvey Security Technologies distributes intruder detection, access control and related CCTV equipment.
- Pentagon supplies and installs sophisticated CCTV systems, offering system design, integration into access control, intruder, fire detection systems and video over IP.
- Global Communications is a designer of integrated analogue and digital telecommunications infrastructure and a distributor of Kenwood telecommunication and radio equipment.
- Abes Technoseal distributes light and heavy duty clutches, ignition leads and oil seals.
- Deltec and Specialised Battery Systems distribute automotive, stand-by and solar battery systems.

Refer to page 51 for a geographic analysis of the source of supply of the consumer-related products range.

51

REVIEW OF OPERATIONS (CONTINUED)

PERFORMANCE

In 2015 the consumer-related products segment contributed 50% (last year: 38%) of group turnover and 59% (last year: 42%) of group operating profit. Turnover grew by 52% to R2,6 billion whilst operating profit grew 77% to R380 million. The growth was predominantly due to the addition of Partquip to the segment.

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

PARTQUIP

The Partquip group is our biggest business and we are happy to report that it has bedded down well and produced a very satisfactory first set of results within the group. It was acquired with effect from 1 December 2014.

It distributes to resellers in the automotive aftermarket and is made up of three divisions:

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

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

GLOBAL COMMUNICATIONS

Global Communications had a much better year securing a substantial HF Radio contract in the first half of 2015. We are very proud of the work done in the Kruger Park in fighting rhino poaching using our communication equipment. This success has led to Global being awarded a single-source contract to roll out the entire SANDF UHF trunking network over the next five years in the park. The specialised systems integration part of the business continues to take advantage of the migration from analogue to digital communication throughout Africa but 60% of sales are still of analogue equipment. Low commodity prices had a negative impact on African countries' economies and as a result no significant new networks were sold in this financial year. Consequently, sales into Africa decreased by 30%. A significant customer grouping is in the public sector, including municipalities, hospitals, police, and defence forces. This year we have seen less demand from private sector customers mainly in the mining industry. All these customers require sophisticated and reliable communication equipment for control and monitoring purposes.

PRINCIPAL BRANDS: PARTQUIP				GLOBAL COMMUNICATIONS		
PARTQUIP	A-Line	IRONMAN 4x4	Fersa	KENWOOD	JVC	BARRETT Tactical Communications
Select range of quality guaranteed automotive components.	Select range of alloy and steel wheels.	4-Wheel drive suspension, accessories and camping equipment.	Platinum bearings.	PMR equipment and radio networks.	CCTV cameras and video systems.	HF and VHF tactical communication equipment.
Own brand since 1984	Own brand since 1999	Sole distributor since 2005	Sole Distributor of automotive bearings since 2008	Sole distributor for southern Africa since 1987	Distributor since 2009	Distributor since 2010

RUTHERFORD

Rutherford sales were marginally up on 2014 in a tough market which was impacted by declining growth in consumer spending. The business produced good growth in operating profit as we placed emphasis on managing the things that were in our control. Through improving operating margins and strict management of expenses, we achieved a commendable increase in profits.

The power tool market is divided into "industrial" – tools designed for everyday use and used mainly by manufacturing or installation businesses; and "DIY" (do it yourself) – tools designed to be used only occasionally, mainly for household use. Rutherford represents Makita Japan, which produces high quality (and hence high cost) power tools mainly for the industrial market. Over the past years high volume retailers worldwide have made inroads into the industrial segment of the market despite not offering application advice or after-sales service but by using price as a draw card. Their increasing market shares and buying power has enabled them to put pressure on industrial power tool suppliers to reduce prices. Experience shows that suppliers who yield to this pressure inevitably reduce the quality (and cost of manufacture) of their offering, which in the long run is noted by customers and results in a degrading of the brand. Makita has resisted such price pressure and maintained quality levels but this has resulted in a decline in unit sales to these stores. We believe this will eventually reverse as customers realise that cheaper products do not perform as well or last as long as they are accustomed to. Further progress was made in expanding Makita's footprint into neighbouring territories with sales up 19% on prior year.

Marine sales were negatively affected by the decrease in the Rand against the Dollar, because Mercury's main competing products are sourced in Yen. Sales of marine products, which are mainly a discretionary purchase, also declined as consumer spending came under pressure. We decided in the later part of the year, due to a drop in sales and a lack of dealer representation in the coastal areas to sell directly to end-users by opening our own marine retail stores in Rutherford premises in Durban and Cape Town.

Sales of survey equipment were flat this year, which must be considered a satisfactory performance given that their main customer base, the mining industry, is still under significant pressure.

PRINCIPAL BRANDS: RUTHERFORD

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

REVIEW OF OPERATIONS (CONTINUED)

ELVEY SECURITY TECHNOLOGIES AND PENTAGON

The security industry experienced very challenging market conditions in 2015 in the midst of a flagging economy, with other challenges too such as sporadic power disruptions resulting in, in some instances a portion of spend that would normally have gone into security products being diverted to alternative or backup energy solutions. Furthermore, the increased pressure to drive market share growth has resulted in many international suppliers eschewing the tried and tested sole distributorship model in favour of joint or multiple distributorships. In this vein, Optex withdrew sole distributorship for its range of detectors early in 2015, with others expected to follow suit in the near future. To mitigate the effects, Elvey has taken on other quality brands and is re-evaluating the nature of product support that it provides. The dramatic weakening in the Rand put further pressure on margins with Elvey trying to remain competitive against locally manufactured and cheaper products. The above factors reflect in Elvey's 2015 results. It was able to grow turnover slightly but had to sacrifice margin to do so, resulting in a significant decline in profits. Operating costs were very well controlled, decreasing slightly for the year.

Pentagon, our systems design and supply business, had a torrid year in a very subdued tender market. Business in other African countries was minimal this year, whereas it usually contributes significantly to Pentagon's results. This was because far fewer projects were available and due to a reluctance to supply unless payment was assured. Activity picked up towards the end of the year with Pentagon being awarded and delivering a number of new projects. Its offering also includes building integration systems and intelligent video analysis. Pentagon's turnover declined slightly but its operating profit was well down.

ABES TECHNOSEAL

Abes Technoseal produced a satisfactory results for the 2015 financial year. Light duty clutch kit sales grew on the previous year but due to the volatility of the SA currency as well as stronger competition specifically from China, margins were under pressure.

Heavy duty clutch kit sales increased substantially compared with 2014 with a full year sales and the introduction of new clutch kits to the range. BougiCord and the Seals division's strategy of re-sourcing competitively priced components is showing good results.

DELTEC AND SPECIALISED BATTERY SYSTEMS (SBS)

The inability of Eskom to maintain supply integrity, has presented an opportunity for both Deltec and Specialised Battery Systems. The growth in our sales of alternative energy products has come from mainly solar panels, DC to AC invertors, grid-tie invertors and stand-by lead-acid type batteries – all products required in converting solar energy to electricity that are used to support the energy requirements of the consumer. We foresee that this new wave of demand will not subside and will rather be transformed into a demand for a holistic approach to energy solutions rather than a product-specific demand. Deltec Energy Solutions (Deltec Power renamed) will cover this gap in the market in 2016 and beyond.

Deltec performed well this year with its main market still being the automotive market. We see an opportunity to diversify into underground mining applications. SBS had an exceptional year, benefiting from load shedding as it has a significant presence in the stand-by battery market.

PRINCIPAL BRANDS: ELVEY SECURITY TECHNOLOGIES AND PENTAGON

DSC	OPTEX	NetworX by UTC Fire & Security	CEM SYSTEMS	impro technologies	VISION LINE	BOSCH	RISCO
Canadian manufacturer of intrusion detection products.	Japanese intrusion detection devices.	USA manufacturer of intrusion control panels and equipment.	Innovative and unique range of access control products manufactured in Ireland.	South African manufacturer of access control systems.	Range of locally and internationally sourced security accessories and CCTV products.	Specialised German-designed IP and analogue CCTV products.	Israeli producers of high quality and reliable security products.
Distributor since 1990	Distributor since 1987	Distributor since 1987	Distributor since 2010	Distributor since 2011	Sole distributor since 1994	Distributor since 2005	Sole distributor since 2014

OUTLOOK FOR THE CONSUMER-RELATED PRODUCTS SEGMENT

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

- consumer spending;
- light construction activity;
- vehicle sales;
- employment levels;
- Rand strength or weakness; and
- analogue to digital migration of communication equipment.

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

Trading conditions in this segment are expected to be challenging in 2016 as interest rates seem destined to rise in the year ahead with the imminent downgrade to junk status. The rapid growth in consumer spending in South Africa over the past decade was mainly fuelled by growth in public sector employment; above inflation wage increases across the economy; and the expansion of the social grant programme. This growth cannot continue unabated without a growing economy and tax base to support it. General consumer spending will continue to support automotive aftermarket, alternative power generation and power tool sales, markets important to Hudaco.

The significant decline in the Rand exchange rate against our major trading currencies (US Dollar, Euro and Yen) in 2015 will have an effect on pricing in 2016 as most products in this segment are sourced in other currencies. Provided we can hold our margins, this should be positive for Hudaco.

CONSUMER-RELATED PRODUCTS SOURCE OF PRODUCTS

	(%)
China	36
South Africa	11
Germany	8
USA	8
Korea	7
European Union – other	7
Asia – other	7
Japan	6
Canada	3
Other	7

PRINCIPAL BRANDS: DELTEC AND SBS

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

ABES TECHNOSEAL

Oil seals from Germany.	Ignition cables from France.	Light duty clutch kits from France.	Clutch kits from Japan.	Clutch kits from Korea.
Preferred distributor since 1950	Exclusive distributor since 2007	Exclusive distributor since 2005	Sole distributor since 2014	Exclusive distributor since 1994

ENGINEERING CONSUMABLES

The primary business of this segment is the supply of replacement parts for industrial machinery used in the mining and manufacturing sectors. This segment has mostly been affected by the decline in the mining, manufacturing, steel and agriculture sectors. So whilst turnover and profit were fairly flat at half year, there was a sharp decline in business in the months of August, September and October as business confidence reached an all-time low.

This segment comprises the following main businesses and activities:

- Bearings International (BI) has over 40 branches across southern Africa. The main bearing brands distributed are FAG and KOYO.
- Deutz Dieselpower represents Deutz AG – one of the world's leading independent manufacturers of air-cooled and liquid cooled medium-sized compact diesel engines.
- Filter and Hose Solutions (FHS) is a leading distributor of Donaldson filters and filtration solutions, kits and accessories for heavy duty and automotive applications.
- Mechanical Power Transmission products, which consists of: Ambro Sales, Astore Africa, Belting Supply Services, Berntel, Bosworth, Ernest Lowe, Dosco (including GPM), Joseph Grieveson and Sanderson Special Steels.
- Electrical Power Transmission products, constituted by: Ampco, Powermite, Three-D Agencies, Proof Engineering and Varispeed.

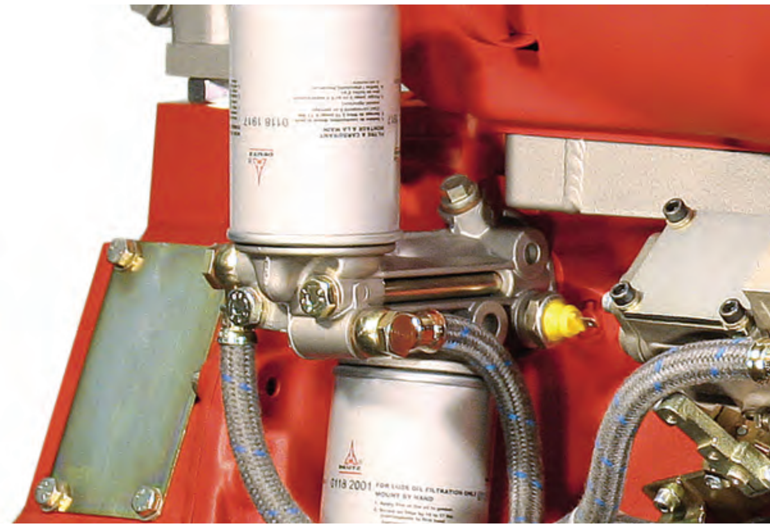
PERFORMANCE

In 2015 the engineering consumables segment comprised 50%; (last year: 62%) of group turnover and 41% (last year: 58%) of group operating profit. Turnover decreased by 5% to R2,6 billion and operating profit decreased 14% to R260 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 on our sales but it generally does not last long and demand soon resumes.

Being low value, critical items, our products are generally not very price sensitive.

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, copy 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.

Refer to page 55 for a geographic analysis of the source of supply of the engineering consumables product range.

55

BEARINGS INTERNATIONAL

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

Sales decreased year on year in this depressed market and the volatile Rand and competitive environment led to a slip in the gross margin.

Bearings International completed its restructuring programme in 2015. With the austere management of our inventory we have managed to significantly reduce the stock in the year under review. This, coupled with a significant decrease in the expense line, means we are now well structured to tackle 2016.

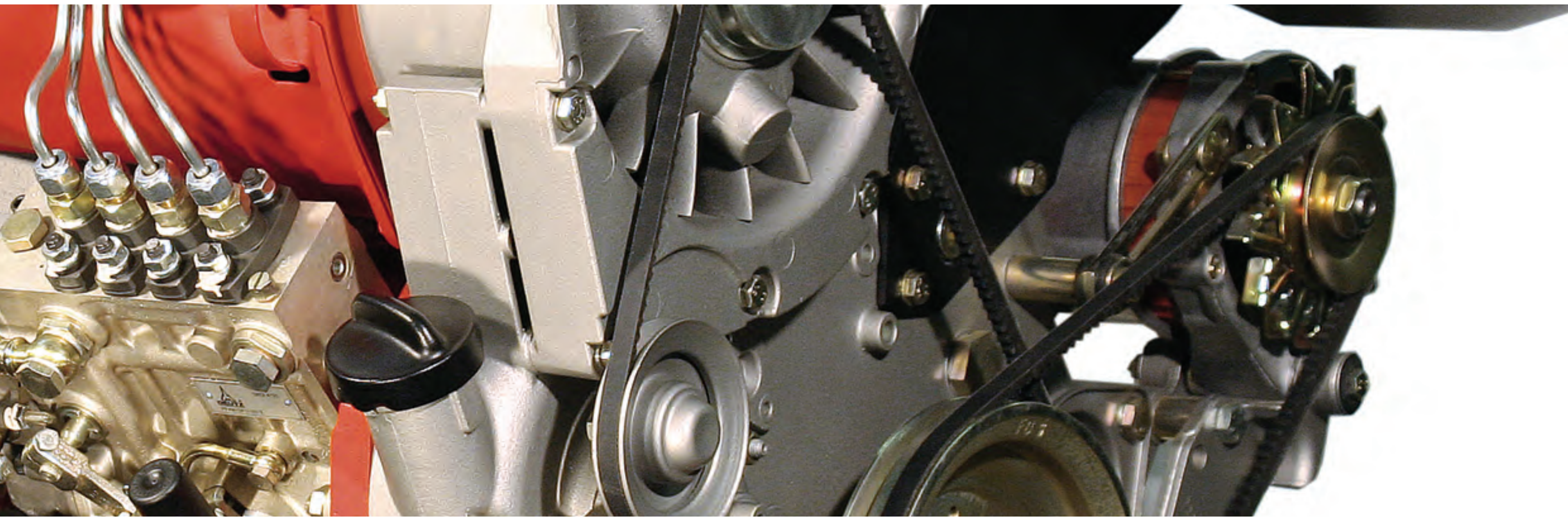
DEUTZ DIESELPOWER (DDP)

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

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

DDP had a successful year in 2015 due mainly to the unreliable energy supply in the country, which sparked a surge in the demand for stand-by and alternative energy solutions. This trend is expected to continue as the availability of generation plant capacity dwindled from 90% in 2008 to 72% in 2015 (www.nersa.org.za).The platinum mining market (DDP's main revenue contributor for many years) is still reeling from the after-effects of extensive labour unrest, depressed demand and low prices.

We expect the genset market to be muted while Eskom maintains supply within the current depressed market conditions but the market remains aware that alternative power supply has become a necessity going forward. It is expected that the mining market will grow slightly as the labour market returns to normality and most of the Anglo Platinum asset sales are concluded. The regulatory developments regarding emission controls underground are developing at a constant pace and this will place Deutz



PRINCIPAL BRANDS: BEARINGS INTERNATIONAL				DEUTZ DIESELPOWER
SCHAEFFLER LuK INA FAG	JTEKT Koyo TOYODA	KAYDON	COOPER The world's number one split roller bearing	DEUTZ
Precision bearings from Germany.	Ball and roller bearings from Japan.	Thin section bearings from USA.	Split roller bearings from UK.	Air and liquid-cooled engines from Germany 12 – 520kW.
Distributor since 2005	Sole distributor since 1962	Distributor since 2008	Sole distributor since 1937	Sole distributor since 1969

REVIEW OF OPERATIONS (CONTINUED)

engines at a distinct advantage against the Indian and Chinese copied imports as Deutz engines already comply with European emission regulations, the most stringent in the world.

The new branch in Zambia has been trading since July 2014 but it has been affected by the slowdown in the Zambian mining market and has not yet generated an operating profit.

FILTER AND HOSE SOLUTIONS (FHS)

FHS continued to build its reputation as a filtration specialist in the automotive filtration industry despite numerous challenges during the past year. FHS had a very satisfactory year with turnover only marginally down on the previous year. With the mining and construction industries depressed, it has proved difficult to grow the business. Nevertheless, FHS' methodology of customised filtration solutions and technical support demonstrated the resilience of its business model. The focus on increasing business with neighbouring countries has resulted in 30% of sales going outside South Africa.

The uncertainty in the mining industry, with the continual slide of global commodity prices, is the major concern for this business as it enters 2016. In the year ahead, it will aim to maintain market share in the mining and construction industries and will look to grow its industrial process filtration business.

POWER TRANSMISSION BUSINESSES

ELECTRICAL POWER TRANSMISSION

The division includes Powermite, Varispeed, Ampco, Proof Engineering and Three-D Agencies. After a relatively good first half, sales fell off in August, September and October due to the depressed conditions in the main segments (mining and manufacturing) that these businesses serve. The advantage of the drop in the copper price was lost by the decline in the Rand. Sales and gross profit were down slightly.

Three-D Agencies our distributor of specialised cable accessories, test equipment and tools increased volume sales in the year under review. Proof Engineering, after a very good year in 2014, was severely impacted by the rapid decline in expenditure in coal mining, its primary market.

MECHANICAL POWER TRANSMISSION

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

Joseph Grieveson had a very good year growing both sales and profit. Growth in business came mainly from the pump industry, thanks to government spending money on municipality water works. The depreciating Rand had a positive effect on Joseph Grieveson as the change in the exchange rate has made local manufacturing more competitive. All the work that was previously done by the Proof Engineering foundry in Germiston has been moved to Joseph Grieveson, which enabled us to achieve considerable cost savings by closing the Proof foundry.

GPM had an excellent result increasing sales in hard currencies. The business made good progress in a sluggish world economy, increasing Dollar sales in 2015, despite a reduction in sales from Australia and Asia Pacific. The Rand's slide against the Dollar over the last year stimulated new local sales as the cost to import products increased. Operating profit grew substantially driven by Rand weakness and increased volumes through the plant, which then resulted in improved overhead recovery rates. GPM opened

PRINCIPAL BRANDS: ELECTRICAL POWER TRANSMISSION						MECHANICAL POWER TRANSMISSION	
YASKAWA	BAUER	TF Kable	AMPCO	MENNEKES®	CONDUCTIX wampfler	NORGREN	agru
Variable speed drives from Japan	Geared motors from Germany.	Electrical cable from Poland.	Own range of electrical plugs and sockets	Plugs and sockets from Germany	Electrical feeder systems from Europe	European pneumatic equipment.	Thermoplastic pipe and fittings from Austria.
Sole distributor since 1992	Sole distributor since 1989	Distributor since 1998	Since 1974	Sole distributor since 1974	Distributor since 1970	Sole distributor since 1959	Sole distributor since 1995

an office in the USA near the end of 2015 and will continue to focus on increasing Dollar-based sales in 2016 as it rolls out a new distribution strategy there. It will also work on improving sales into Africa.

The other mechanical transmission businesses had a very difficult year with sales and profits down on the previous year. Those with the greatest exposure to the mining industry were, understandably, the ones that reflected the most disappointing results. It is encouraging that none of our businesses made a loss for the year.

ENGINEERING CONSUMABLES SOURCE OF PRODUCTS

	(%)
South Africa	38
Germany	19
European Union – other	15
China	13
Japan	5
USA	5
Asia – other	3
Other	2

OUTLOOK FOR THE ENGINEERING CONSUMABLES SEGMENT

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

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

The lack of electricity and policy uncertainty continue to have a large negative impact on the South African economy and this segment in particular. Labour unrest is also a frequent disrupter.

The mining sector in South Africa is heavily dependent on support from the local manufacturing industry. These two market sectors are significant users of engineering consumables and represent 57% of this segment's sales. The outlook for mining in South Africa remains muted and is likely to remain so until there is a resumption in growth in the world economies generally and commodity prices rise in response to recovering demand. Infrastructure constraints (electricity and rail capacity mainly) appear to be less of an issue for the year ahead, unfortunately for the wrong reasons.

Mechanical seal compression fittings from Italy.	Industrial hose from Thailand.	Transmission and conveyor belting from Switzerland.	Heavy duty filtration systems from USA.	High performance hydraulic filtration from Italy.	Kawasaki Staffa Radial Piston Motors.	Kawasaki Axial Piston Pumps.	Hydraulic SAE mounted Cast Iron Pumps.	Ferrous and non-ferrous castings.
Sole distributor since 1997	Sole distributor since 2002	Distributor since 1970	Distributor since 1994	Sole distributor since 2003	Distributor since 2000	Distributor since 2000	Manufacturer and distributor since 1985	Manufacturer and distributor since 1915

REVIEW OF OPERATIONS (CONTINUED)

NEIGHBOURING COUNTRY OUTLOOK

Activity in neighbouring countries in the last year has decreased, particularly in Mozambique, Zambia and southern Congo. Lower commodity prices and rumblings from governments about new, more stringent, indigenisation requirements for new investment constrain investment. In the case of Zambia, the government increased mining taxes and later reduced them, which worries investors. Zimbabwe has resources and so much potential but a government and indigenisation laws that restrict investment. Like in South Africa, until such time as commodity prices increase we will see very little growth in mining and manufacturing from our neighbouring countries.

BLACK ECONOMIC EMPOWERMENT

During 2015, all businesses were again audited by independent verification bodies. Hudaco Trading achieved a level 3 status, which then applies to all its businesses and subsidiaries, meaning that customers are able to claim 110% (and in some cases 138%) 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 the last three years were previously 100% owned by white shareholders. Our BEE status has become critical to our acquisitive success.

65, 66 See pages 65 and 66 for further details of our transformation programme.

The Department of Trade and Industry published revised codes for B-BBEE on 1 May 2015 and our businesses are required to be verified and comply with the new codes by 30 April 2016. Our BEE ratings may drop to some extent initially, but if they do, we expect those of our competitors to do the same. We have implemented a strategy to address the new requirements and ensure that we maximise our scores.

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. During 2015 the group's social and ethics committee focused on establishing a formalised strategy for improving Hudaco's environmental performance and the management thereof. As a first step in this regard, Mike Allnutt, a senior manager was appointed as environmental executive with a specific mandate to review Hudaco's environmental policy framework and to update it where required as well as to improve the group's environmental management systems through the identification of significant aspects; the documentation of objectives and targets, internal system audits; internal communication of the environmental policies and training of relevant employees. He will work with the group's executive committee and with the social and ethics committees that have been established at each of our businesses.

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

Opportunities to minimise our environmental and social impacts therefore include the consideration of the environmental and social performance of our suppliers through:

- the origin of raw material inputs and the recycled content of products;
- pollution abatement in manufacturing processes;
- environmental performance of product (such as in the case of our diesel engines);
- the energy intensity of manufacturing and transportation methods;
- fair labour practices; and
- social contributions.

Except where there is patently 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 14 001, OHSAS 18 001, ISO 9 001 and ISO 26 000 standards. Where we acquire businesses without these ISO certifications, we put in place a programme to ensure they obtain the certifications within an appropriate timeframe.

Owing to our comparatively low purchases from global suppliers as a proportion to their total sales, our ability to influence their manufacturing methods is small. For example, our total annual Makita power tools purchases are about 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 will have much more influence on the productions standards of our suppliers than we could ever have.

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). Examples of the environmental management efforts of some of our major suppliers are set out on page 59.

59

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 buy from that 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 circuit boards, but volumes are too small to formalise collection, recycling or disposal systems. Metal components from power tools are sent for recycling, and contaminated water from diesel engine workshops is treated prior to disposal.

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

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

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

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

The following were identified as significant environmental aspects for the group:

- ensuring that the sourcing of all raw materials contributing to manufacturing as well as human resources is maintained by fair labour practices and social contributions;
- reducing energy consumption;
- improving logistics management;
- the responsible economical and sustainable usage and recycling of water in operational processes; and
- identifying environmentally friendly and safe methods for the disposal of all waste.

With the assistance of the newly appointed environmental executive, the following objectives will be pursued during 2016:

- building a sustainable society by engaging all Hudaco's employees in environmental education and activities;
- assessing the environmental impact of our business operations through questionnaires;
- evaluating the environmental impact of our group stemming from material procurement, manufacturing, warehousing, distribution, usage and disposal with reference to each of the phases of the product lifecycle;
- reducing energy consumption by way of expanding renewable energy and the utilisation of energy efficient devices such as low energy consuming air-conditioning systems, LED luminaires, automated switching devices for controlling lighting and heating demands;

REVIEW OF OPERATIONS (CONTINUED)

- reducing pollution and ensuring that product waste is correctly disposed of;
- investigating the recycling of "grey water" including water catchment projects pertaining to rain water; and
- improving logistic management to prevent duplication and unnecessary transportation of commodities and cargo.

As a pilot project during the latter part of 2014, the daily usage of electricity and water was analysed at Powermite, a Hudaco business that distributes electric cabling, plugs, sockets, electric feeder systems and crane materials. This resulted in the implementation of energy and resource savings actions in 2015 which included the replacement of fluorescent light fittings with LED lighting technology, installation of motion detection switching systems in areas such as ablution and passageway areas, as well as the decommissioning of the centralised air-conditioning system and the installation of low energy efficient split systems in specific areas throughout the premises. Water consumption was lowered through replacement and repairs of leaking underground pipes. Considerable savings were achieved as the table below illustrates.

	Consumption 2014	Consumption 2015	Environmental conservation benefits (YOY)	Estimated economic benefits R000
Electricity	220 000 kWh	**122 000 kWh**	98 000 kWh	102
Water	7 800 kl	**680 kl**	7 120 kl	168

It is anticipated that we will be able to implement similar changes at all the businesses in the Hudaco group commencing during 2016.

DEUTZ CONTRIBUTION TO ENVIRONMENTAL PROTECTION

Combustion engines produce emissions – soot particles, nitrogen oxides and other toxic gases which harm humankind and pollute the environment. It is the duty of politicians and industrial concerns to constantly advance the development of low-emission technologies. The framework which underpins this obligation is ever more stringent emission limits.

North America, Europe and Japan have introduced the strictest emissions standards and have largely harmonised them in the industrial engine sector – Deutz's core business sector. The BRICS countries (Brazil, Russia, India, China and South Africa), of equally huge importance when measured by global sales, are aligning themselves to these standards and will catch up in the medium-term. To meet the current EU Stage IV and US Tier 4 in the 56 to 560 kW power output range, the nitrogen oxide limit is now set at 0,4 g/kWh and the maximum for particulate emissions at 0,025 g/kWh.

This means that nitrogen oxide limits have been reduced by 95,7% between 1999 and 2014 in North America, Europe and Japan and by 96,5% for particulate mass (essentially soot particles). Deutz engines equipped with particulate filters to meet the most recent emissions standard already reduce particulate mass by more than 99%. Consequently, the exhaust gases from the latest Deutz engines which meet the most stringent emissions standard contain no more nitrogen oxides or particulate mass than the ambient air in many of the world's greatest cities. To this extent, our highest emissions standard sets us on the way towards zero emissions.

(Source: Deutz AG Annual Report 2014)

THE AFRICAN CONTEXT

Although African countries are generally not among those which legislate exhaust emission compliance, the role of these low-emission engines cannot be underestimated. This is particularly the case in the underground mining environment where miners' health and safety is of paramount importance, and into which market (among others) Deutz Dieselpower is selling the latest Deutz engine models in a configuration which is suitable for our market and current diesel fuels available. These latest engines also populate our market in imported equipment (such as construction equipment, agricultural equipment etc) and are fully supported by Deutz Dieselpower.

ELECTRIC ENVIRONMENTAL MANAGEMENT VARIABLE SPEED DRIVES

Any consumer and user of electric motors aiming to develop a sustainable future would consider using Yaskawa variable speed drives or frequency inverters as supplied by Varispeed in order to achieve not only massive savings in energy, but also the reduction in their carbon footprint.

Savings achieved, to name but a few are:

- improvement of energy and overall efficiency;
- reduction of energy consumption;
- reduction of peak power consumption; and
- regeneration of energy when using the U1000 Matrix Inverter.

Yaskawa Electric has been on the forefront with the development of variable speed drives, and has been the first in the world to launch, and make commercially available, a general purpose low-voltage regenerative U1000 matrix technology converter. Not only are savings achieved through better running efficiency, but overhauling loads would cause this inverter to regenerate power back into the supply as well as providing high stopping torque without the use of additional external devices such as braking resistors or separate regenerative units. In addition, extremely low input harmonics are achieved which further contribute to a cleaner and more efficient power supply.

Varispeed continues to play a significant role in assisting industry and users of electric motors, in particular on fans and pumps, with reduction of the consumption of energy by utilising Yaskawa variable speed drives. This is not surprising, as a typical savings model would produce a saving of up to 50% by reducing the speed of a centrifugal fan by only 20%!

In addition to electric motor control, Yaskawa also proudly offers Yaskawa inverters for photovoltaic (solar) and wind turbine systems which further enhance their offering in providing energy saving and efficient solutions which provide for a cleaner environment. Varispeed would like to introduce these to South Africa once they are released onto the world market.

WORLD'S LARGEST VERTICAL BELT REELER

Bosworth was approached by Sasol, Flexco and ELB Engineering to fabricate and build a vertical belt reeler for the Sasol Impumelelo Project. The reeler was constructed and pre-assembled successfully at the Bosworth factory. The 9 metre diameter reel weighing more than 35 ton will be installed on top of the mine shaft and when fully loaded will hold 150 ton of conveyor belt. The belt reeler will be used to store and unspool 2 195 metre of conveyor belting in a single operation, when the mine's main decline shaft becomes operational. Although its primary job is initially to spool the new belt onto the conveyor, it will then be used to store replacement belt that can quickly be utilised to replace damaged areas or even the whole belt if required.

Fully assembled belt reeler

PARTQUIP – 40 YEARS OF SERVICE IN THE AUTOMOTIVE INDUSTRY

Partquip celebrated its 40th anniversary in 2015. Now Hudaco's largest business, it has come a long way from its humble beginnings in 1975 as Goldwing Franchises, a Honda motorcycle dealership. Within a few years, a wholesale automotive accessories business called Autoquip was opened and proved so successful that the company changed its name to Autoquip and sold off the original motorcycle franchise so as to allow management to devote its full attention to the accessories business.

In 1984 the company tackled a new market sector – automotive replacement parts – through the establishment of the Partquip division. Partquip leveraged off the Autoquip distribution structure but employed a different strategy, moving away from known brands and establishing its own eponymous brand.

Autoquip Group listed on the JSE in 1987 and soon thereafter formed a new division called Partco that specialised in steering and suspension components and mountings. Almost 10 years later, Partco would be incorporated into Partquip to achieve economies of scale and still forms an important part of the business.

When Bridgestone, whose high-performance tyres were until then distributed on a wholesale basis in South Africa by Autoquip, merged internationally with Firestone, the Autoquip route to market required a paradigm shift. Bridgestone Firestone SA (BFSA) acquired a significant stake in the Autoquip group and provided the finance to build a chain of retail fitment centres. The group also opened a specialist retail store called Suspension Solutions and, to secure a source of supply for part of the Autoquip product range, the A-Line Wheels division was formed. It grew to be one of the largest distributors of wheels in the country and a significant contributor to group profits.

The group delisted in 2002, leaving just two shareholders – the Coquelle family and BFSA. In 2009, with the assistance of an injection of funds from a new shareholder, the Lui family from China, one of the company's longest standing and largest suppliers, BFSA were bought out.

Brake Part distributors was acquired in 2011, which considerably enhanced access to a range of products that complemented the Partquip range. By 2013 management had decided to make a strategic shift away from retail so they disposed of the Autoquip side of the business by facilitating a management buy-out that unshackled the Autoquip team from the constraints of the mindset of Partquip, the dominant wholesale operation.

A year later, the Ironman 4X4 joint venture was put in place through a 50/50 arrangement with Ironman 4X4 International of Australia, which had been the primary supplier to Suspension Solutions. This provided access to a much broader product range and the more expansive southern Africa market. Thus, the three current operations: Partquip, A-Line Wheels and Ironman 4X4, were in place.

As both shareholder families were keen to exit the business, and Hudaco, which was a supplier to Partquip, was in the market for a suitable large acquisition that would reduce its exposure to the mining and manufacturing sectors, the acquisition of Partquip by Hudaco made a great deal of sense. Partquip has been in the Hudaco group since 1 December 2014 and has integrated very well.

JOSEPH GRIEVESON – 100 YEARS OF QUALITY CASTINGS

Joseph Grieveson reached a milestone in its illustrious history this year, celebrating its 100th anniversary. The company was founded in 1915 by Joseph Grieveson at premises in Smith Street, Durban close to the present Technical College. Joseph had emigrated from Newcastle upon Tyne in North East England after learning the foundry trade at Armstrong Engineering Works.

The business established a reputation for high quality non-ferrous sand castings as well as chill cast bushing in copper-based alloys. They also produced several grades of white metal for mill bearings. These were supplied to the sugar, ship building, ship repairs and general engineering industries.

In the early 1920s Joseph was joined by his son John Robert (Bob). The business developed and earned a reputation for reliable non-ferrous casting service to the industry, with on-time deliveries, even though the products at the time had to be transported to the railway station on hand drawn carts.

As the business grew it became necessary to find larger premises, so in the mid-1940s, the foundry was moved to 11 Moore Road in Durban. Here with more space, the melting capacity was increased and the production was expanded, and so the company became the largest supplier of non-ferrous chill cast bushing in Natal.

The family business prospered under Joseph and Bob and during World War Two became an essential supplier to the Naval Shipyards. The partnership continued until 1945 when Joseph passed away but Bob continued to manage the company successfully in Moore Road. In 1964 Bob was joined by his youngest son Jack who started as an apprentice moulder and progressed through to cost estimating, sales and marketing, so acquiring a thorough knowledge of the foundry business. At this stage the foundry specialised in non-ferrous, aluminium and copper-based alloys and white metals only.

Bob and son Jack continued to run the business until Bob passed away in 1981, when Jack took over. Business continued to increase and a sales representative was employed to expand the customer base. The labour force was increased to accommodate the extra workload.

There was positive growth during the 1980s and in 1989 a decision was made to expand the scope of the foundry to include ferrous castings. Environmental and space restrictions prevented further expansion at Moore Road, so the business moved in 1990 to new premises on land purchased in Phoenix Industrial Park, Durban.

Electric induction furnaces were installed to facilitate the production of ferrous castings in steel, nodular iron and grey irons.

Tommy Dunford joined the company in 1991 to help with sales and estimating. The management team under Jack's leadership developed the business to its present status as a major supplier of ferrous and non-ferrous castings to the sugar, valve, mining, heavy duty vehicle, shipping, crusher, mining and general engineering industries, in both KwaZulu-Natal and Gauteng.

2007 ushered in a new era when the business was purchased by Tommy Dunford and his brother Graham. Sticking to a tried and tested winning formula, complemented by dedicated and competent staff, Joseph Grieveson continued to supply quality castings, reliably meeting delivery commitments.

In 2013 the Dunford brothers sold the business to Hudaco. This was a strategic decision in order to satisfy BEE requirements and Grieveson's immediately benefited from Hudaco's BEE credentials, achieving a level 4 rating on the dti scorecard, which opened new markets. Grieveson's also benefited by securing work from other businesses within the Hudaco group.

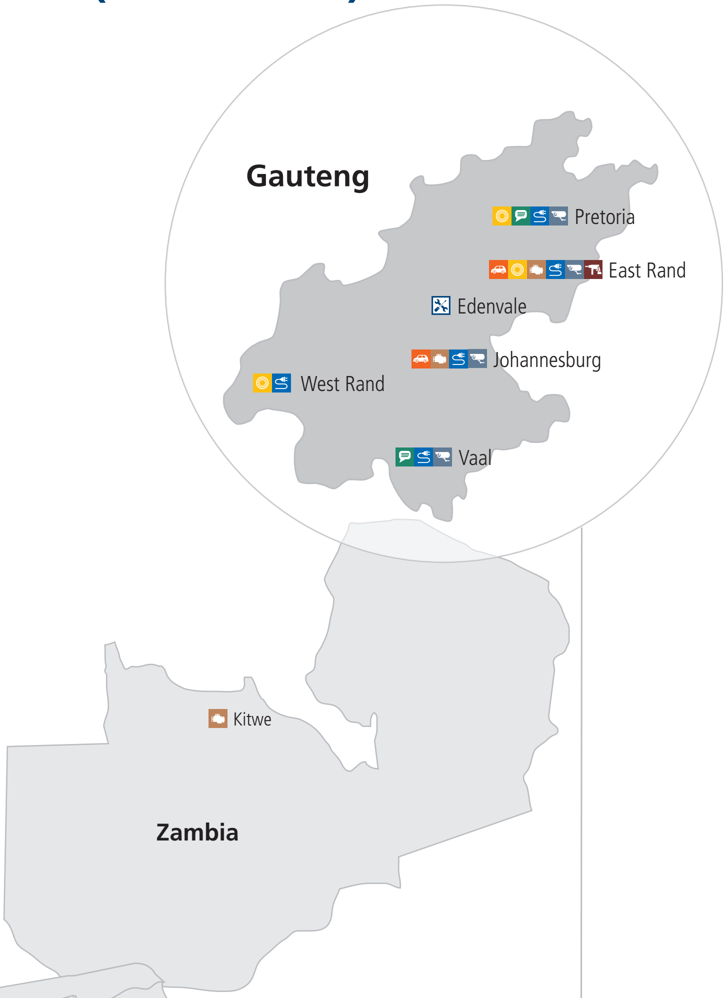
Chemical composition is monitored and controlled using its own in-house spectrograph. It also has its own pattern shop and a heat treatment oven for the stress relieving and annealing of castings. One of Joseph Grieveson's recent achievements was obtaining its ISO 9001 2008 accreditation in 2014 to further attest to the quality of our castings.

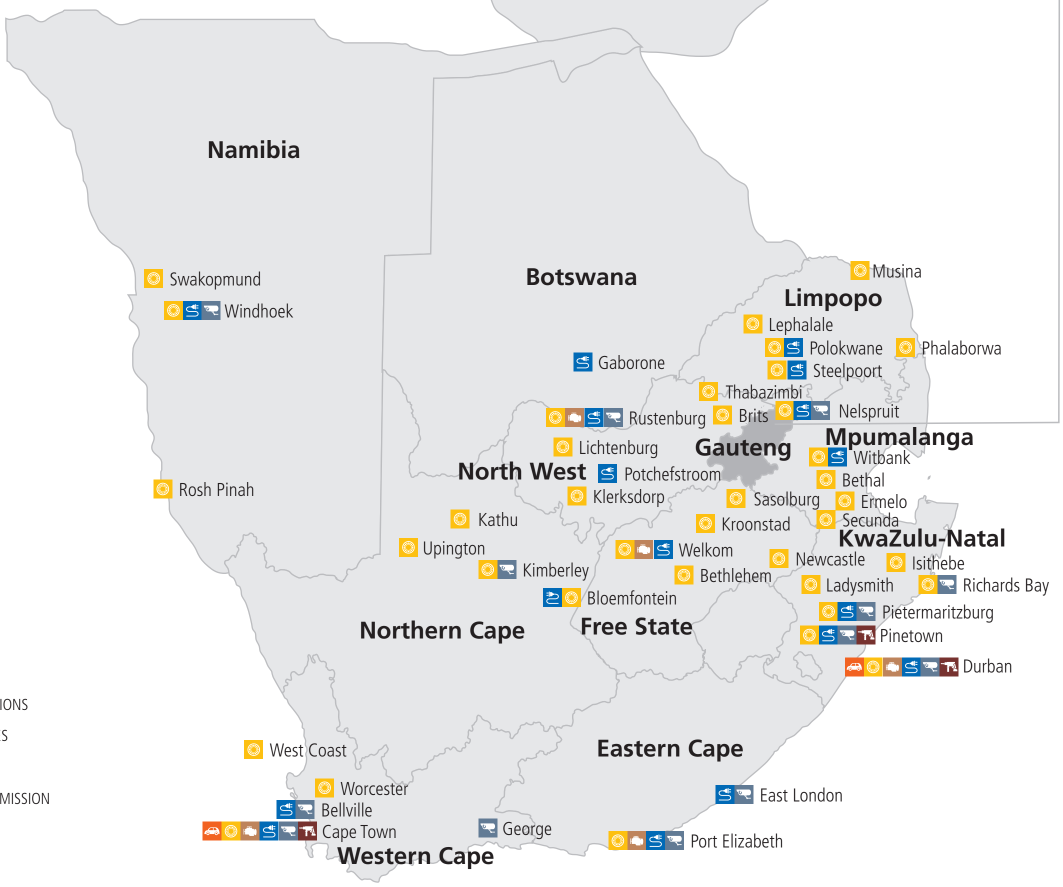
REVIEW OF OPERATIONS (CONTINUED)

LOCATION OF BUSINESSES

	Number of employees	
	2015	2014
Gauteng	1 893	1 849
Western Cape	409	347
KwaZulu-Natal	349	301
North West	71	74
Free State	71	64
Mpumalanga	60	69
Eastern Cape	56	50
Limpopo	47	54
Northern Cape	8	5
Namibia	12	19
Zambia	4	3

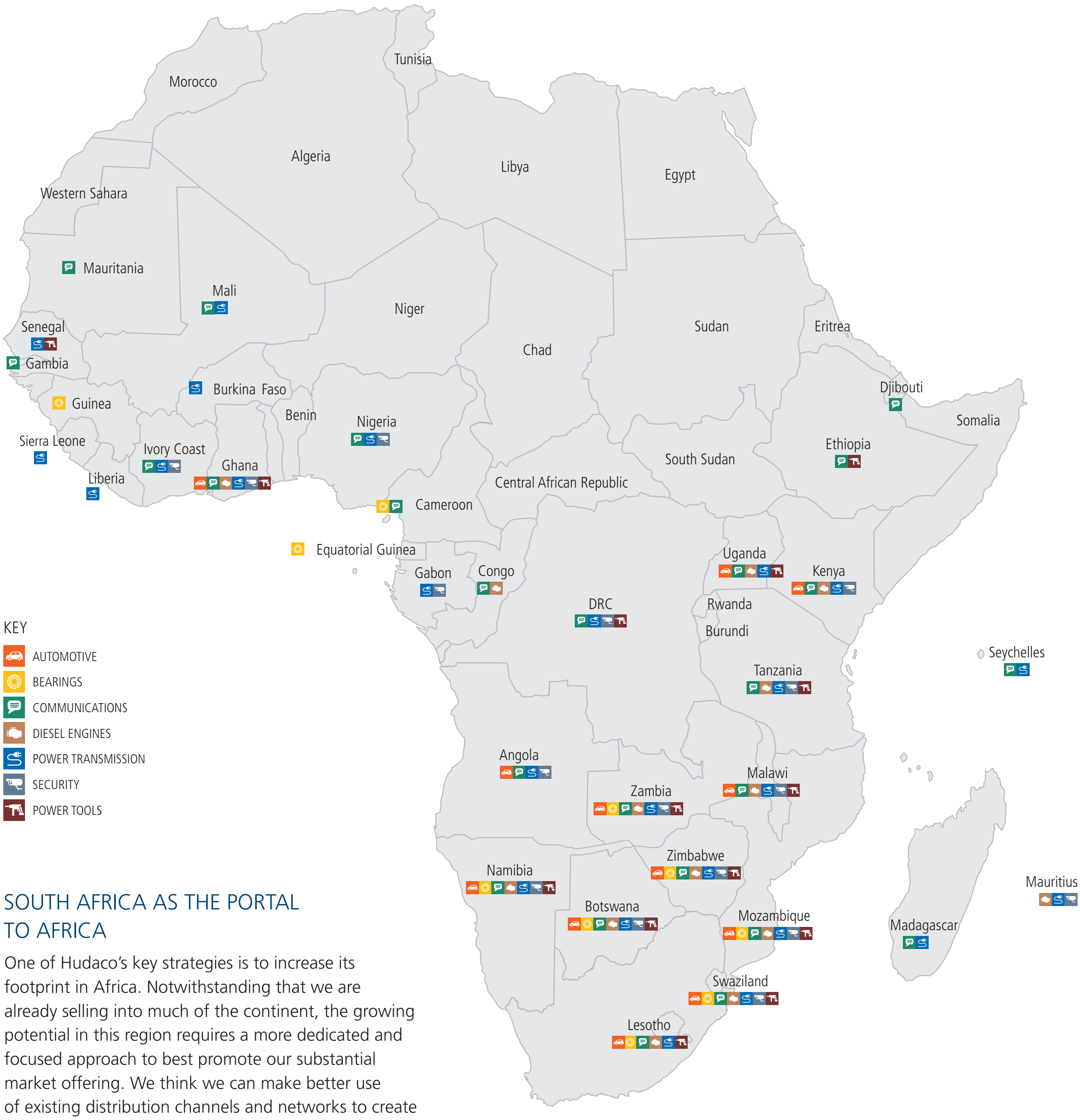
We also operate franchises in Mozambique and Zimbabwe.





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

BUSINESS WITH AFRICA – 2015



SOUTH AFRICA AS THE PORTAL TO AFRICA

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

The following steps have been taken to achieve this strategy:

- A senior manager is focusing on developing business in Africa.
- We are initially targeting countries that are growing fast and have a relatively settled regulatory environment.
- The initial target zone is predominantly sub-equatorial 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) in the identified locations.
- To ensure customer satisfaction and loyalty, the branches carry sufficient stock and offer comprehensive technical support.

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

EMPLOYEE REPORT

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

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

WORKFORCE PROFILE

	2015	2014
Total workforce	3 041	2 888
Less: Non-permanent employees	61	53
Total permanent workforce	2 980	2 835
Racial and gender profile		
White males	694	713
White females	385	353
Black, Indian and Coloured males	1 477	1 398
Black, Indian and Coloured females	424	371
Occupational level profile		
Top and senior management	112	91
Middle management	338	357
Junior management	1 026	923
Non-management	1 504	1 464
Management profile by gender		
Females	362	300
Males	1 114	1 071
Management profile by race		
White	865	841
Black, Indian and Coloured	611	530
Non-management profile by gender		
Females	447	424
Males	1 057	1 040

	2015	2014
Non-management profile by race		
White	214	225
Black, Indian and Coloured	1 290	1 239
Disability profile by gender		
Female	6	7
Male	8	8
Disability profile by race		
White	8	8
Black, Indian and Coloured	6	7

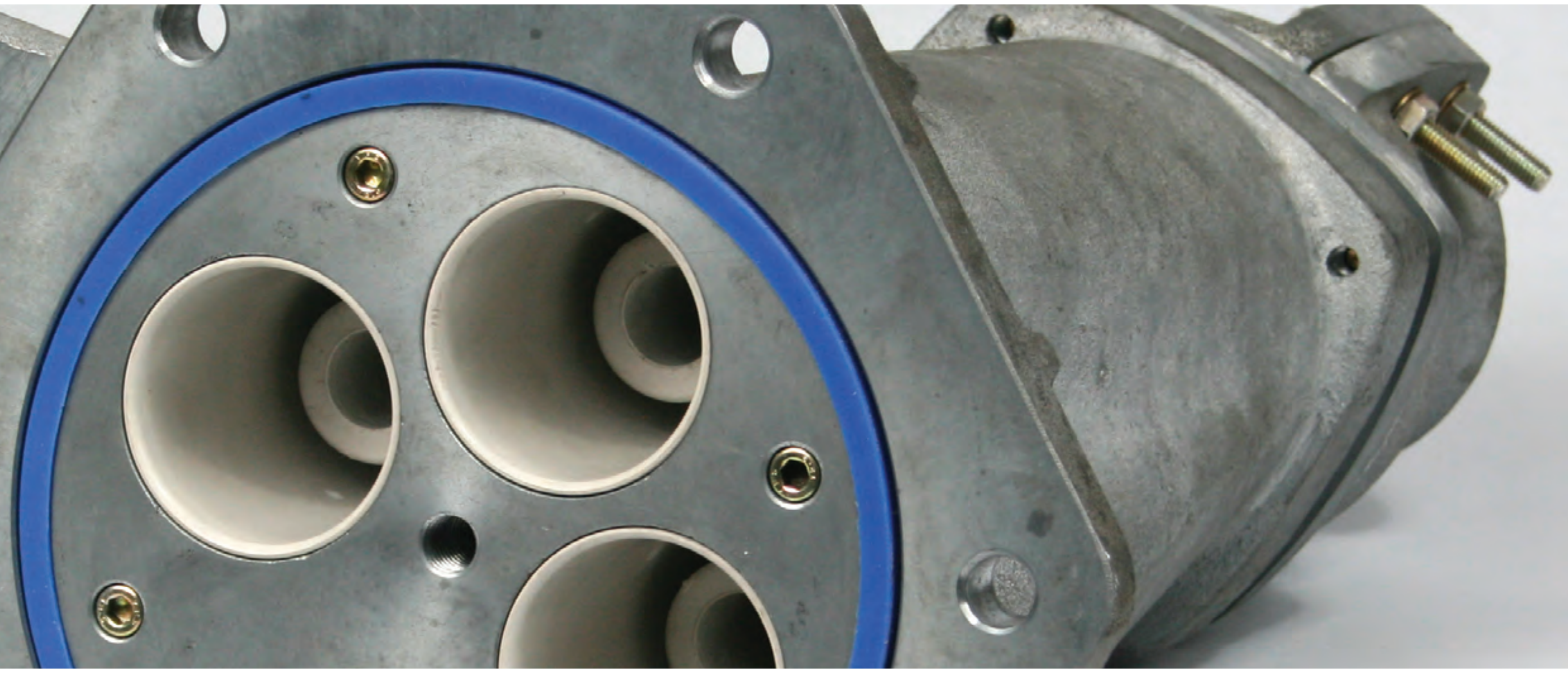
DECENTRALISED MANAGEMENT

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

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

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

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



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

TALENT MANAGEMENT

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

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

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

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

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

TRANSFORMATION

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

As an important step in driving transformation in the group, Johny Masinga, group transformation and human resources executive, who has more than 14 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.

Our strategy with regard to transformation is largely unchanged:

- Black representation in management is a core focus for all management appointments. All senior appointments in the group – the designated top 100 or so people – are monitored at Exco and board level to ensure that every endeavour is made to find qualified black candidates to fill vacant positions, while ensuring that the consequences of this policy do not result in a diminution of the high standards to which we aspire.

- BEE has been incorporated into succession planning. The retirement process offers an opportunity to identify the date when positions will become vacant and gives time to develop black candidates at middle-management level and below, for these senior management posts.
- Hudaco is also concentrating on a better gender balance across its workforce. Recruitment and development processes throughout the organisation focus on female as well as black recruits to ensure a balanced "pipeline of talent".

SKILLS DEVELOPMENT AND TRAINING

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

- The senior management team: We have identified members of the senior management team whom we believe have the qualities required for growth to executive level in due course. These people have been given expanded responsibilities and are being nurtured with a view to their being able to step into the breach as more senior managers reach retirement age. Most members of the senior management team have attended Master of Business Administration (MBA) and other master's degree courses at various universities. During 2015, six senior managers of whom three were black, were sponsored by the group to study MBA degrees.
- Technical expertise: Critical relationships in the field are with the technical and maintenance teams of our customers. They place the orders upon which we depend for our turnover. We need a constant supply of new sales staff with the right technical skills to be able to adapt to and service our customers' changing needs. The demise of the apprenticeship system in local industry as a pipeline of skills into this area is regrettable. Although we are essentially a group of distribution businesses we run in-house apprenticeships where we can and technical traineeships where we can't.

Under the auspices of the group transformation and human resources executive and with the assistance of the Wits Business School which is internationally recognised, the group conducted a future leaders development programme (FLDP) for junior management and management leadership development programme (MLDP) for middle management. The aim of these programmes is to provide a steady flow of leadership talent for the group, with particular emphasis on developing black leadership. We are already having successes in bringing potential black leaders through the ranks and preparing them for future middle and senior management positions. The 2015 FLDP programme had 20 participants, of whom 16 were black and the MLDP programme had 20 participants, of whom six were black.

Customer interaction occurs primarily through our technical sales team. As they are the face of the business and the drivers of organic growth in revenue, we invest heavily in their training. New appointees are sent for training prior to being placed in the field. The board also supports training and skills development initiatives through bursary programmes, management training schemes (as described above), experiential trainee programmes, mentorships, apprenticeships, educational assistance and learnerships. Extensive in-house and external training is given in a wide range of practical and theoretical subjects to better equip employees with the skills required for senior positions. The apprenticeship programme content includes financial administration, human resources administration, inventory management and warehousing courses, as well as technical product training. In total 95 (2014: 90) staff members successfully completed their courses in 2015.

GPM, Joseph Grieveson, Dosco, Bearings International, Ernest Lowe, Bosworth, Astore, Keymak, Rutherford, Deutz Dieselpower and Bauer run a SETA accredited apprenticeship programme in terms of which trainees are being trained in various trades. In 2015, 39 (2014: 24) technical and semi-skilled employees participated in the programme.

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.

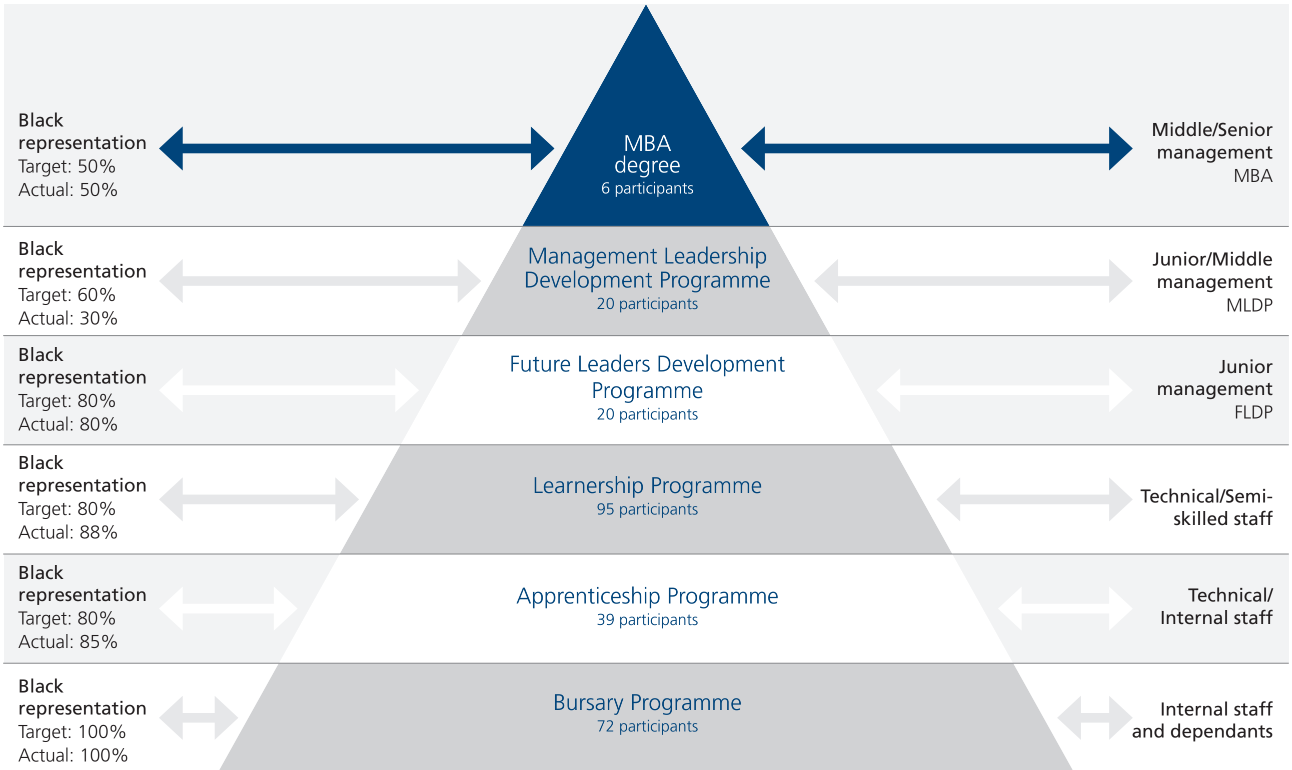
During the year under review, group expenditure on employee training amounted to approximately R7,8 million (2014: R7,3 million).

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 don't charge for this training of the installers or our agents – we believe that as we are in the business of distributing high-quality brands, the more the clients understand the value of the product, the more loyal they will be.

In 2012 Hudaco introduced an engineering graduate development programme with the aim of addressing skills shortages in the technical side of our business. Currently 100% of the participants are black. This programme grew from eight participants in 2012 to 20 in 2015 (2014: 17 participants). Every effort is made to absorb the graduates in our employ as they qualify. Our target is to have at least 20 participants in this programme on an annual basis. We are delighted that thus far 15 of our programme participants have qualified as engineers through the University of Johannesburg and Vaal University of Technology.

Below is a graphic depicting the overall training initiatives implemented by Hudaco during 2015 as well as the targets set. Employment equity and skills development committees exist at the group's various businesses to drive the various skills development programmes.

GROWING OUR OWN TALENT 2015



SUCCESSION PLANNING

A formal performance management and succession policy is in place. We employed four black female managers in 2015 to take advantage of the opportunities that may arise due to retirement of senior executives. We continued to focus on communicating our succession plans with senior management during the year and ensuring that our training and development efforts and employment equity plans are in alignment.

CORPORATE ETHICS AND GOVERNANCE

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

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

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

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

EMPLOYEE REPORT (CONTINUED)

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.

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

All employees in the Hudaco group companies 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; and
- avoiding any conflicts of interest.

ORGANISED LABOUR AND EMPLOYEE RIGHTS

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

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

Copies of the Basic Conditions of Employment Act, Skills Development Act and the Employment Equity Act are displayed in all workplaces. Formal grievance procedures are in place through which employees can raise issues. There were no grievances relating to human rights during the year. There were 83 (2014: 76) dismissals for misconduct.

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) and a pension or provident fund if they are not on an industry fund.
- Formula-based short-term incentives: This level of remuneration applies to the top 100 or so senior managers in the group. For those employed in business units, this is comprised roughly equally of two annually measured performance criteria: RONA, and growth in profits in the businesses under their control. The group chief executive and financial director are remunerated on primarily ROE and growth in comparable headline earnings per share. A portion of their short-term incentives is based on the achievement of non-financial key objectives.
- Long-term share-based arrangements
  - Share appreciation rights scheme: This level of remuneration applies only to the top 184 managers in the group. It comprises a reward for share price appreciation realised through share appreciation rights that vest between three to five years after award. It is designed to ensure that management takes a medium to long-term view when acting on matters which may affect business performance and share price.
  - Share matching scheme: In order to align better the interests of the executives with those of shareholders and to ensure that the executives have capital at risk in Hudaco, a share matching arrangement is in place for about a dozen senior executives who are three years or more from retirement. Executives are required to invest in Hudaco shares a minimum of 12,5% and up to a maximum of 50% of their after-tax short-term incentive-based remuneration. These shares are to be acquired on the open market. Provided the executive 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.

Further information on executive remuneration is set out in the report of the remuneration and nomination committee, commencing on page 36.

36

RETIREMENT FUNDS

The group's schemes for all 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 during the first half of 2013. 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.

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, each Hudaco business has a health and safety committee, which meets once a month to discuss OHS issues. These committees comprise health and safety representatives, people trained in first aid and fire team members. Comprehensive safety training is conducted alongside measures such as fire drills and evacuation procedures, buddy support systems, driver training, regular servicing and inspection of machinery, hazard reduction and safety awareness signage.

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

- ensure a working environment where employees living with HIV/Aids are protected from unfair discrimination and stigmatisation and are treated with dignity, compassion and respect;
- ensure stability and productivity in the workplace;
- encourage disclosure by HIV/Aids 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 2015 shows no fatalities, 56 disabling injuries (2014: 59) and a disabling injury frequency rate (DIFR) per 200 000 hours worked of 1,71 (2014: 1,97). The injury rate remains low compared to industry averages.

SHEQ SYSTEMS

All business units are required to be certified against the applicable standards for environmental, health and safety, quality and social risk management, ie ISO 14001, OHSAS 18001, ISO 9001 and ISO 26000. Most of our businesses have already achieved certification against at least three of the standards. ISO 26000 (a social responsibility standard) is relatively new to the business arena, and will be rolled out in due course. No incidences of non-compliance, prosecution or fines relating to environmental performance or health and safety were reported during 2015.

WELLNESS

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

As a condition of employment, all personnel joining the company as permanent employees earning more than R10 200 per month are required to join the preferred medical aid scheme of the company unless proof can be supplied of membership of another scheme as a dependant. Employees earning less than R10 200 per month can also join the medical scheme and similarly qualify for the subsidy. The current preferred medical aid scheme is Discovery Health.

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

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

There were, on average, 1 100 employees on the medical scheme during the year to November 2015. Contributions totalled R44 million, of which R19 million was covered by the Hudaco subsidy, which was limited to 50% of Classic Priority. Gap insurance cost a further R1,2 million, of which Hudaco paid half.

With the support of Alexander Forbes Health and Discovery Health Medical Scheme, Hudaco ran a total of 16 employee wellness programmes at our locations in Gauteng, Durban and Cape Town. Employees, irrespective of whether they were covered by medical aid or not, were offered, at no cost to themselves:

- health risk assessment: height, weight, blood pressure, cholesterol, glucose and BMI;
- eye screening by a mobile optometrist;
- HIV voluntary counselling and testing;
- 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, 791 (2014: 738) Hudaco employees of whom 452 (2014: 469) are not on medical aid, took advantage of the opportunity and had a health risk assessment, while 464 (2014: 418) employees checked their HIV status. 23 (2014: 25) employees tested positive for HIV. (The percentage of members who tested positive decreased

EMPLOYEE REPORT (CONTINUED)

from 6% to 5%.) 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, 27% of Hudaco employees tested were overweight, indicating a significant decrease compared to 2014. Without intervention, this could lead to the development of high blood pressure, high cholesterol and diabetes. 20% of employees tested had elevated blood pressure, which remained unchanged from 2014. This may indicate that employees are receiving treatment after being identified at wellness days and that they are controlling their blood pressure levels with appropriate medication.

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 assessment done on-site and free of charge. The relevant employees have been given the appropriate advice to address their conditions. Some Hudaco businesses, like Filter and Hose Solutions, sponsors two doctors' visits per annum (which includes medication) to 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.

Overall Hudaco spent R8,6 million (2014: R9,2 million) on various enterprise development initiatives during its 2015 financial year. Some of these included:

- Bosworth employed BEE companies to provide cleaning services and to do scrap removal;
- Belting Supply Services outsourced its splicing work to a BEE company;
- Proof Engineering supported SMMEs in business development;
- Deutz Dieselpower continued its system of early payments to level 4 B-BBEE contributors;
- Dosco supported SMMEs in business development;
- Deltec provided products at special rates for SMMEs;
- Ambro Sales provided a facility for a black female optometrist on their premises;
- Astore and Abes Technoseal subsidised canteen facilities, owned by black women at their respective premises; and
- Bearings International continued to offer business support ie assistance through training and mentorship arrangements with various SMMEs.

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

These funds are managed and distributed by Hudaco's head office on behalf of business units. In 2015, Hudaco donated approximately R1,8 million (2014: R2,1 million) to a variety of socio-economic development initiatives.

Ambro Sales Enterprise Development Initiative

Ms Luyanda Ngwenya, a black female optometrist and owner of ICU Eye Care, which was established in 2010, broke new ground in the field of eye care through the establishment of the "Optometrists in a Container" concept, located in the industrial area of Wadeville, Germiston on premises provided to her by Ambro Sales. Her business employs three permanent staff members, and another four part-time staff who are called in to assist during peak periods. Her business services industry workers in Wadeville, coming from various companies such as Murray & Roberts, Ambro Sales, Transital Engineering as well the licensing department in the East Rand.

Mandela Day

Hudaco, in partnership with Food & Trees for Africa (FTFA) continued to honour Nelson Mandela Day. This year, employees of Hudaco planted 361 trees and handed out 1 000 food parcels in Tembisa, Orange Farm, Soweto, Diepsloot, Boksburg, Katlehong, Kempton Park, Daveyton, Cape Town and Durban.

FTFA responds to applications for trees from communities to green and transform the communities through the planting of trees and educates community members on maintaining the trees. This in turn enhances the quality of life of communities, reduces soil erosion, offsets carbon emissions and ultimately transforms schools and other community centres into healthier more sustainable environments. Hudaco contributed R150 000 towards the tree planting initiative.

Nelson Mandela Day
Hudaco, together with Food and Trees for Africa – Greening South Africa

EMPLOYEE REPORT (CONTINUED)

The Hudaco Trading BEE Staff Education Trust, a 5,8% shareholder in Hudaco Trading, has been established with a mandate to empower current and future black employees, their spouses and their children by granting tertiary education scholarships, bursaries and study loans to eligible applicants. Beneficiaries may study towards any career of their choice and, on completion of their studies, are under no obligation to work for Hudaco. As the trust has not yet built up sufficient reserves to fund these bursaries, Hudaco provides the required resources. In 2015, 72 (2014: 60) students were granted bursaries, of whom 38 were women. For the 2016 academic year 80 students have been identified for bursaries, of whom 51 are women.

Future Leaders Development Programme graduates

Engineering students who participated in the Future Leaders Development Programme

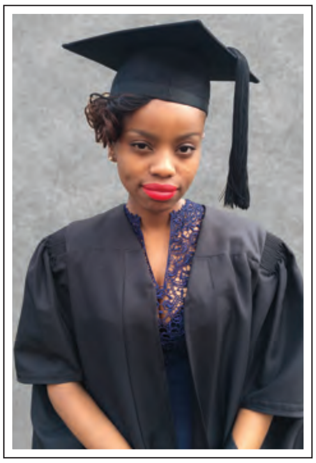
Management Leadership Development Programme graduates

Bursary students 2015

"My name is Lydia Mauwane and I'm an employee of Hudaco head office. In 2012 I was fortunate to get a bursary from Hudaco BEE Education Trust to study Marketing Management at Boston Business College and Unisa. I graduated in 2015 with an average distinction of 80% and was named the best Sales and Marketing student as well as the best overall student for the 2014 year.

My family and I are grateful to Hudaco for awarding me a bursary. Hudaco has given me the gift of education that nobody can ever take away from me. Hudaco's Group Financial Director Mr Clifford Amoils once told us "The harder you work, the more successful you will be". I have now proof that this is true and hope that someone else would be inspired by my accomplishments. It was not easy, it was not fun, but the results were exhilarating. I am over the moon with joy and excitement for my future.

I wish all the best for Hudaco and the good work that they are doing with the bursaries. From my family to Hudaco "REA LEBOGA!!!"



"My name is Lebogang Mthembu, and I am a proud graduate of the University of the North West. Through the bursary obtained from Hudaco, I was able to complete my BSc degree in Information Technology. My goal now is to study further and get an honours degree. My father works for Proof Engineering and I was fortunate enough to get the Hudaco bursary. I would like to thank the entire Hudaco team for helping me achieve my dream of getting a degree, I am now a step closer to reaching my goals. I hope you continue supporting others as you did for me. Thank you."

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 38 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 2015 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.

SG Morris
Chairman of the audit and risk management committee

28 January 2016

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 2015 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 Wolmarans
Group secretary

28 January 2016

DIRECTORS' REPORT

REPORTING PERIOD

The directors have pleasure in presenting their report for the company's financial year ended 30 November 2015. The annual financial statements for the year ended 30 November 2015 were authorised for issue in accordance with a resolution of the directors on 28 January 2016. 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 professional mobile radio 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 shareholders of the group for the year ended 30 November 2015 were R369 million (2014: R3 million). The 2014 figure reflected an amount of R312 million paid in settlement of a dispute with SA Revenue Service. The results represent basic earnings per share of 1 164 cents (2014: 8 cents). Headline earnings per share were 1 163 cents (2014: 6 cents) and comparable earnings per share were 1 169 cents (2014: 986 cents).

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

DIVIDENDS

R million	2015	2014
Dividend number 56 of 310 cents per share declared on 29 January 2015	106	106
The record date was 6 March 2015 and the dividend was paid on 9 March 2015		
Dividend number 57 of 180 cents per share declared on 25 June 2015	61	53
The record date was 14 August 2015 and the dividend was paid on 17 August 2015		

On 28 January 2016 the directors declared dividend number 58 of 345 cents per share, being the final dividend in respect of the year ended 30 November 2015. The record date will be Friday, 4 March 2016 and the dividend will be paid on Monday, 7 March 2016.

SUBSIDIARIES

Particulars of the principal subsidiaries of the company are set out on page 114 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 BERNTEL

With effect from 1 December 2014, Hudaco acquired the trading assets and liabilities of Berntel as a bolt-on operation to Ernest Lowe, a manufacturer of hydraulic and pneumatic equipment.

The purchase consideration, subject to a maximum of R18,9 million, is to be settled as follows: an initial amount of R6,8 million was paid in cash on 4 December 2014 and the balance is payable in cash in two tranches on 5 February 2016 and 5 February 2017 based on actual levels of average profitability achieved in the years to 30 November 2015 and 30 November 2016.

ACQUISITION OF 100% OF THE SHARES OF PARTQUIP GROUP PTY LTD

With effect from 1 December 2014, Hudaco acquired 100% of the shares of Partquip Group Pty Ltd, which distributes automotive components under the established brands of Partquip, A-Line, Brake Parts and Ironman 4X4.

The net purchase consideration was R430 million, settled in cash on 1 December 2014.

ACQUISITION OF THE TRADING ASSETS AND LIABILITIES OF SANDERSON SPECIAL STEELS

With effect from 1 September 2015, Hudaco acquired the trading assets and liabilities of Sanderson Special Steels as a bolt-on operation to Ambro Sales, a distributor of engineering steels, solid, round, square, hexagonal and hollow bar steel.

The purchase consideration, subject to a maximum of R45 million, is to be settled as follows: an initial amount of R20,3 million was paid in cash on 10 September 2015 and the balance is payable in cash in three tranches on 4 May 2016, 4 May 2017 and 4 May 2018 based on actual levels of average profitability achieved in the years to 29 February 2016, 28 February 2017 and 28 February 2018.

THE FOLLOWING ACQUISITIONS WERE MADE AFTER THE REPORTING DATE:

ACQUISITION OF THE TRADING ASSETS AND LIABILITIES OF HYDRAULIC ENGINEERING REPAIR SERVICES (HERS)

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

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

ACQUISITION OF THE TRADING ASSETS AND LIABILITIES OF ALL-TRADE DISTRIBUTORS

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

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

RESOLUTIONS

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

AUTHORITY TO BUY BACK SHARES

At the forthcoming annual general meeting in March 2016, 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 2015 are contained in notes 17.1 and 17.2 to the financial statements.

SHARE-BASED REMUNERATION SCHEME

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

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.

Mr PC Baloyi resigned as a director on 19 March 2015 due to a conflict of interest and Ms N Mandindi was appointed to the board with effect from 1 June 2015.

In terms of the company's Memorandum of Incorporation, Ms N Mandindi is required to retire at the forthcoming annual general meeting and Messrs SJ Connelly, GR Dunford and SG Morris retire by rotation.

All these directors are available, eligible and recommended for re-election. Their profiles appear on pages 20 and 21.

The following changes in the roles of non-executive directors will be effective after the forthcoming annual general meeting on 9 March 2016: Stuart Morris will step down as chairman of the audit and risk management committee but will remain a member of the committee and chairman of the remuneration committee; Daisy Naidoo will become chairman of the audit and risk management committee and will step down as chairman of the social an ethics committee but will continue to serve as a member; and Nyami Mandindi will assume the chairmanship of the social and ethics committee.

DIRECTORS' REPORT (CONTINUED)

DIRECTORS' INTERESTS

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

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

DIRECTORS' REMUNERATION AND DETAILS OF THEIR SERVICE AGREEMENTS

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

SECRETARY

Reana Wolmarans is the secretary of the company. The address of the secretary is set out on page 125.

BORROWING POWERS

The borrowing powers of the Hudaco group are unlimited. At 30 November 2015, unutilised borrowing facilities amounted to R551 million (2014: R924 million).

STATEMENT OF DIRECTORS' RESPONSIBILITY

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

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

The external auditors are responsible for carrying out an independent examination of the financial statements in accordance with International Standards on Auditing and reporting their findings thereon. The auditor's report is set out on page 79.

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 2015, which appear on pages 75 to 114, were approved by the board on 28 January 2016 and are signed on its behalf by:

RT Vice
Chairman

GR Dunford
Chief executive

28 January 2016

INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS OF HUDACO INDUSTRIES LIMITED

We have audited the consolidated and separate financial statements of Hudaco Industries Limited, as set out on pages 80 to 114, which comprise the consolidated and separate statements of financial position as at 30 November 2015, and the consolidated and separate statements of comprehensive income, consolidated and separate statements of changes in equity and consolidated and separate statements of cash flows for the year then ended, and the notes, comprising a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated and separate financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated and separate financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements.

The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated and separate financial statements present fairly, in all material respects, the consolidated and separate financial position of Hudaco Industries Limited as at 30 November 2015, and its consolidated and separate financial performance and consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards, and the requirements of the Companies Act of South Africa.

OTHER REPORTS REQUIRED BY THE COMPANIES ACT

As part of our audit of the consolidated and separate financial statements for the year ended 30 November 2015, we have read the directors' report, audit and risk management committee's report and company secretary's certificate for the purpose of identifying whether there are material inconsistencies between these reports and the audited consolidated and separate financial statements. These reports are the responsibility of the respective preparers. Based on reading these reports we have not identified material inconsistencies between these reports and the audited consolidated and separate financial statements. However, we have not audited these reports and accordingly do not express an opinion on these reports.

Grant Thornton

Grant Thornton
Chartered Accountants (SA)
Registered Auditors

C Botha
Partner
Chartered Accountant (SA)
Registered Auditor

28 January 2016

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

GROUP STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 NOVEMBER 2015

R000	Notes	2015	2014
Turnover		5 230 082	4 479 794
Ongoing operations		4 548 083	4 479 794
Operations acquired in 2015		681 999	
Cost of sales		3 312 660	2 844 504
Gross profit		1 917 422	1 635 290
Operating expenses	5	1 311 784	1 140 987
Operating profit	5	605 638	494 303
Ongoing operations		482 559	494 303
Operations acquired in 2015		123 079	
Adjustment to fair value of amounts due to vendors of businesses acquired		(2 289)	2 237
Profit before interest		603 349	496 540
Finance costs	6	75 581	39 404
Profit before taxation		527 768	457 136
Taxation excluding tax settlement	8	141 575	127 323
Profit before tax settlement		386 193	329 813
Settlement of tax dispute	8		312 000
Profit after taxation		386 193	17 813
Equity accounted income from joint venture		2 966	
Profit for the year		389 159	17 813
Other comprehensive income to be reclassified to profit and loss subsequently		3 705	(1 022)
Gain (loss) on fair value of cash flow hedges – current year		4 568	(1 605)
Reclassification of (gain) loss on fair value of cash flow hedges to profit		(662)	408
Exchange (loss) gain on translation of foreign operations		(201)	175
Total comprehensive income for the year		392 864	16 791
Profit attributable to:			
– Shareholders of the group		368 508	2 626
– Non-controlling shareholders	17.7	20 651	15 187
		389 159	17 813
Total comprehensive income attributable to:			
– Shareholders of the group		371 617	1 798
– Non-controlling shareholders	17.7	21 247	14 993
		392 864	16 791

Basic earnings per share (cents)	9	1 164	8
Diluted basic earnings per share (cents)	9	1 163	8
Headline earnings per share (cents)	9	1 163	6
Diluted headline earnings per share (cents)	9	1 161	6
Comparable earnings per share (cents)	9	1 169	986
Diluted comparable earnings per share (cents)	9	1 167	984

GROUP STATEMENT OF FINANCIAL POSITION

AT 30 NOVEMBER 2015

R000	Notes	2015	2014
Assets			
Non-current assets		1 366 612	1 024 547
Property, plant and equipment	10	261 116	257 124
Investment in joint venture	11	6 665	
Goodwill	12	1 001 073	730 466
Intangible assets	13	68 588	36 117
Deferred taxation	14	29 170	840
Current assets		2 407 412	2 043 817
Inventories	15	1 368 663	1 141 107
Trade and other receivables	16	990 110	855 519
Taxation		9 581	5 567
Bank deposits and balances	22.6	39 058	41 624
Total assets		3 774 024	3 068 364
Equity and liabilities			
Equity		1 895 163	1 681 913
Interest of shareholders of the group		1 843 749	1 648 746
Non-controlling interest		51 414	33 167
Non-current liabilities		830 890	208 754
Amounts due to bankers	18.1	800 000	197 000
Amounts due to vendors of businesses acquired	18.2	17 132	11 754
Deferred taxation	14	13 758	
Current liabilities		1 047 971	1 177 697
Trade and other payables	19	764 397	710 618
Bank overdraft	22.6	254 972	257 164
Amounts due to vendors of businesses acquired	18.2	22 421	17 915
Taxation		6 181	192 000
Total equity and liabilities		3 774 024	3 068 364

GROUP STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 NOVEMBER 2015

R000	Notes	2015	2014
Cash flow from operating activities			
Operating profit		605 638	494 303
Adjusted for:			
Settlement of share-based payments		(21 550)	(21 546)
Depreciation less profit on disposal of property, plant and equipment		39 540	32 802
Amortisation of intangible assets		29 049	19 893
Increase in working capital	22.1	(156 538)	(44 063)
Cash generated from operations		496 139	481 389
Fair value adjustment of cash flow hedges		3 906	(1 197)
Taxation paid excluding tax settlement	22.2	(185 701)	(141 174)
Net cash from operating activities before tax settlement		314 344	339 018
Tax settlement – payments made	22.2	(192 000)	(80 000)
Net cash from operating activities		122 344	259 018
Cash flow from investing activities			
Additions to property, plant and equipment	10	(37 395)	(63 527)
Proceeds from disposal of property, plant and equipment		6 138	5 638
Acquisition of businesses	20	(447 934)	(161 449)
Decrease in loan to joint venture		2 472	
Payments to vendors of businesses acquired	22.3	(17 757)	(62 632)
Net cash from investing activities		(494 476)	(281 970)
Cash flow from financing activities			
Increase in non-current amounts due to bankers		603 000	197 000
Finance costs paid	22.4	(73 053)	(37 420)
Dividends paid	22.5	(158 064)	(148 203)
Net cash from financing activities		371 883	11 377
Increase in net bank overdraft		(249)	(11 575)
Foreign exchange translation gain		(125)	175
Net bank overdraft at beginning of the year		(215 540)	(204 140)
Net bank overdraft at end of the year	22.6	(215 914)	(215 540)

GROUP STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 NOVEMBER 2015

R000	Share capital	Share premium	Non-distributable reserves	Retained income	Interest of shareholders of the group	Non-controlling interest	Equity
Note	17.2		17.6	17.4		17.7	
Balance at 30 November 2013	3 415	51 533	70 064	1 709 341	1 834 353	19 224	1 853 577
Comprehensive income for the year			(947)	2 745	1 798	14 993	16 791
Movement in equity compensation reserve			(3 179)	(18 367)	(21 546)		(21 546)
Dividends (note 21)				(147 153)	(147 153)	(1 050)	(148 203)
Balance at 30 November 2014	3 415	51 533	65 938	1 546 566	1 667 452	33 167	1 700 619
Less: Shares held by subsidiary company	(251)		(41)	(18 414)	(18 706)		(18 706)
Net balance at 30 November 2014	3 164	51 533	65 897	1 528 152	1 648 746	33 167	1 681 913
Balance at 30 November 2014	3 415	51 533	65 938	1 546 566	1 667 452	33 167	1 700 619
Comprehensive income for the year			3 705	367 912	371 617	21 247	392 864
Movement in equity compensation reserve			5 580	(27 130)	(21 550)		(21 550)
Dividends (note 21)				(155 064)	(155 064)	(3 000)	(158 064)
Balance at 30 November 2015	3 415	51 533	75 223	1 732 284	1 862 455	51 414	1 913 869
Less: Shares held by subsidiary company	(251)		(41)	(18 414)	(18 706)		(18 706)
Net balance at 30 November 2015	3 164	51 533	75 182	1 713 870	1 843 749	51 414	1 895 163

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 NOVEMBER 2015

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 identifiable assets and liabilities of entities acquired are assessed and recognised in the statement of financial position at their fair values at dates of acquisition.

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

Employee remuneration

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.

BEE shareholding

The cost of introducing BEE shareholding is measured by reference to the fair value of the rights granted at the time. The fair value is expensed in determining profit before taxation at the date the grant was made, with a corresponding credit to equity.

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)

1.12 PROPERTY, PLANT AND EQUIPMENT

Land is stated at cost to the group.

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. 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 CAPITALISATION OF LEASED ASSETS

Assets subject to finance lease agreements are capitalised at inception of the lease at the fair value of the leased asset or, if lower, the present value of the lease payments plus incidental payments, if any. A corresponding amount is recognised as a finance lease liability.

Lease finance charges are written off over the period of the lease using the effective interest method.

1.14 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.

1.15 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.

1.16 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.

If assessed to have an indefinite useful life, the intangible asset is not amortised but tested for impairment at least annually and impaired immediately if necessary.

1.17 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.

1.18 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.

1.19 FINANCIAL INSTRUMENTS

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

Subsequent to initial recognition these instruments are measured as follows:

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

Hedge accounting transactions are classified into two categories:

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

Gains and losses on subsequent measurements are treated as follows:

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

1.20 IMPAIRMENT

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

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

1.21 FOREIGN CURRENCY TRANSACTIONS

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

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

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

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

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

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

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

1.22 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.

1.23 SEGMENT REPORTING

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

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. Apart from additional disclosure, these new and revised standards, as per the table below, are not expected to have a material impact on the group financial statements. Certain other new standards and interpretations have been issued but are not expected to have any impact on the group's financial statements.

Standard	Details of amendments	Annual periods beginning of after
IFRS 15 Revenue from Contracts with Customers	■ New guidance on recognition of revenue 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.	1 January 2018
IFRS 16 Leases	■ Requires lessees to account for leases 'on-balance sheet' by recognizing a 'right-of-use' asset and lease liability ■ It also changes the definition of a lease, sets requirements on how to account for the asset and liability, provides exemptions for short-term leases and leases of low value assets, changes the accounting for sale-and-leaseback arrangements, largely retains IAS17's approach to lessor accounting and introduces new disclosure requirements.	1 January 2019

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

R000	2015	2014
5. OPERATING PROFIT		
Operating expenses comprise:		
Staff costs	924 191	819 072
Property rentals under operating leases	90 678	79 868
Depreciation	40 485	34 116
Amortisation	29 049	19 893
Profit on disposal of property, plant and equipment	(945)	(1 314)
Acquisition costs – new businesses	2 789	2 141
Other expenses	371 738	323 222
Less: Allocated to cost of sales	(146 201)	(136 011)
	1 311 784	1 140 987
Included in other expenses and cost of sales are:		
Cost of fair value hedges	25 318	19 272
6. FINANCE COSTS		
Interest on amounts due to bankers and other payables	73 053	37 420
Interest imputed on amounts due to vendors of businesses acquired	2 528	1 984
	75 581	39 404
7. AUDITOR'S REMUNERATION		
Audit fees – current year	7 083	6 502
Fees for other services	35	81
	7 118	6 583
8. TAXATION		
8.1 TAXATION COMPRISES		
South African normal taxation		
Current year	168 201	125 738
Prior years under (over) provision	1 539	(889)
Deferred taxation		
Current year	(26 396)	2 713
Prior years over provision	(2 211)	(1)
Foreign normal taxation	442	(243)
Capital gains tax		5
Total taxation excluding tax settlement	141 575	127 323
Settlement of tax dispute		312 000
Total taxation including tax settlement	141 575	439 323
	%	%
8.2 RECONCILIATION OF RATE OF TAXATION		
Normal rate	28,0	28,0
Exempt income	(1,7)	(0,3)
Disallowable expenditure	0,6	0,4
Prior year over provision	(0,1)	(0,2)
Effective rate of taxation excluding tax settlement	26,8	27,9
Settlement of tax dispute		68,2
Effective rate of taxation including tax settlement	26,8	96,1

R000	2015	2014
9. COMPARABLE EARNINGS, HEADLINE EARNINGS AND BASIC EARNINGS PER SHARE		
Calculation of headline earnings		
Profit attributable to shareholders of the group	368 508	2 626
Adjusted for:		
Profit on disposal of property, plant and equipment	(945)	(1 314)
Tax effect	265	367
Non-controlling interest	89	138
Headline earnings	367 917	1 817
Calculation of comparable earnings		
Headline earnings as per above	367 917	1 817
Adjusted for:		
Settlement of tax dispute		312 000
Fair value adjustments on amounts due to vendors	2 289	(2 237)
Non-controlling interest	(344)	336
Comparable earnings	369 862	311 916

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 shareholders of the group (as set out in the statement of comprehensive income), divided by the weighted average of 31 645 703 (2014: 31 645 703) shares in issue during the year, taking account of shares held by a subsidiary.

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

The calculation of diluted earnings per share is based on 31 695 567 (2014: 31 690 546) shares, being the weighted average number of shares in issue of 31 645 703 plus 49 864 (2014: 44 843) deemed free issue shares. This assumes that any bonus due in terms of the share appreciation bonus scheme is settled in shares at the year end price of R107,01 (2014: R95,90) per share. The number of deemed free issue shares is the difference between the number of shares assumed to have been taken up and the number of shares that could have been acquired with such proceeds less the future IFRS 2 charge on the unvested rights, at the average market price per share.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

10. PROPERTY, PLANT AND EQUIPMENT

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

R000	Freehold land	Buildings	Plant	Computers	Motor vehicles	Other assets	2014 Total
Cost							
Opening balance	16 009	61 729	86 987	79 539	85 388	39 733	369 385
Acquisition of businesses			42 375	1 245	4 170	396	48 186
Additions	3 028	9 218	15 865	8 330	15 687	11 399	63 527
Disposals			(1 622)	(1 293)	(12 859)	(201)	(15 975)
Closing balance	19 037	70 947	143 605	87 821	92 386	51 327	465 123
Accumulated depreciation							
Opening balance		6 288	40 272	45 465	40 287	22 778	155 090
Acquisition of businesses			28 363	680	1 135	266	30 444
Depreciation for the year		1 541	8 463	8 601	10 666	4 845	34 116
Disposals			(1 336)	(1 132)	(8 991)	(192)	(11 651)
Closing balance		7 829	75 762	53 614	43 097	27 697	207 999
Net book value	19 037	63 118	67 843	34 207	49 289	23 630	257 124
The initial expected useful lives are set within these ranges (years):		20 – 40	25 – 30	1 – 10	3 – 15	5 – 10	

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

11. INVESTMENT IN JOINT VENTURE

Partquip Group Pty Ltd, a wholly owned 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 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 all recreational equipment for 4X4 vehicles as well as suspension systems for recreational, industrial and military vehicles.

R000	2015
Total net assets of Ironman 4X4 Africa RF Pty Ltd	6 997
Proportion of ownership interests held by the group	50%
Ownership interests held by the group	3 499
Loan account	3 166
Carrying amount of investment in joint venture	6 665

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

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

R000	2015	2014

12. GOODWILL

12.1 GOODWILL COMPRISES:

Goodwill at cost	1 023 162	752 555
Accumulated impairment	(22 089)	(22 089)
	1 001 073	730 466

12.2 MOVEMENT FOR THE YEAR

Balance at beginning of the year	730 466	618 684
Acquisitions during the year	270 607	111 782
	1 001 073	730 466
The net book value of goodwill has been allocated to the following cash generating units (CGUs):		
Partquip	249 747	
Filter and Hose Solutions	225 680	225 680
Global Communications	127 685	127 685
Keymak	58 520	58 520
Joseph Grieveson	55 834	55 834
Pentagon	43 088	43 088
Dosco Precision Hydraulics	34 937	34 937
Powermite	26 589	26 589
Ambro Sales and Midrand Special Steels	37 370	37 370
Gear Pump Manufacturing	21 011	21 011
Specialised Battery Systems	14 955	14 955
Abes Technoseal	14 435	14 435
Elvey Security Technologies	12 955	12 955
Berntel	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	
Astore Africa	8 453	8 453
Deltec	8 114	8 114
Other	8 803	8 803
	1 001 073	730 466

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

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

12. GOODWILL (CONTINUED)

Cash flows for the second and third years are forecasted by applying individual estimated sustainable levels of growth for the specific businesses, taking into account the drivers of the economic sectors in which they operate and their expected impact on turnover and margins, their business strategies and the risks they face. For the fourth and fifth years and terminal value, cash flows are determined by using estimated sustainable growth levels for CGUs ranging from 7% to 10% and 5% to 7% per annum, respectively, which rates are considered reasonable in context of the industries in which they operate. Beyond the short-term, they are derived from the use of a common forecasting process followed across the group.

Discount rates applied to cash flow projections are based on a South African specific weighted average cost of capital (WACC), which takes into account appropriate risk free rates adjusted for market risk, company specific risk, effective rates of taxation, cost of debt and the relevant weighting between debt and equity. The WACC applied to all CGUs is 14,2% (2014: 14,0%). Consideration was given as to whether the factors pertaining to any of the CGUs warranted the use of an adjusted rate, but it was not considered necessary.

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

Goodwill arising on the acquisition of Berntel, Sanderson Special Steels, Specialised Battery Systems and Three-D Agencies includes an element of purchase consideration based on the attainment of targeted levels of profitability for the respective earn-out periods. Adjustments to the purchase consideration are debited or credited to profit.

13. INTANGIBLE ASSETS

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

R000	Customer relationships	Trade names	Supplier contracts	2014 Total
Cost				
Opening balance	69 887	26 842	9 287	106 016
Acquisition of businesses	14 091	2 811		16 902
Closing balance	83 978	29 653	9 287	122 918
Accumulated amortisation				
Opening balance	40 079	10 166	6 164	56 409
Amortisation for the year	16 151	1 913	1 829	19 893
Closing balance	56 230	12 079	7 993	76 302
Accumulated impairment				
Opening and closing balance	6 083	4 416		10 499
Net book value	21 665	13 158	1 294	36 117
The remaining expected useful lives are set within these ranges (years):	3 – 6	10 – 14	3 – 5	

Intangible assets were acquired as part of the acquisition of businesses. The costs attributable to these assets have been determined by valuation specialists and management, applying recognised valuation techniques.

R000	2015	2014

14. DEFERRED TAXATION

14.1 DEFERRED TAXATION COMPRISES TEMPORARY DIFFERENCES ARISING FROM:

Accelerated capital allowances	(23 507)	(21 479)
Intangible assets	(19 406)	(10 312)
Doubtful debt allowances	6 978	4 068
Leave pay and bonus accruals	33 666	29 093
Calculated tax loss	20 958	2 999
Other	(3 277)	(3 529)
Net deferred taxation asset	15 412	840

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

Balance at beginning of the year	840	10 032
Arising on acquisitions during the year		
Accelerated capital allowances	(2 450)	(3 949)
Intangible assets	(17 226)	(4 733)
Doubtful debt allowances	1 087	49
Leave pay and bonus accruals	1 442	1 880
Other	3 112	273
Raised (utilised) during the year		
Accelerated capital allowances	422	(1 941)
Intangible assets	8 132	5 520
Doubtful debt allowances	1 823	(234)
Leave pay and bonus accruals	3 131	(7 247)
Calculated tax loss	17 959	2 999
Other	(2 860)	(1 809)
	15 412	840

15. INVENTORIES

Merchandise	1 311 099	1 090 490
Raw materials and components	18 200	20 410
Work in progress	39 364	30 207
	1 368 663	1 141 107
Cost of inventory recognised as an expense in cost of sales	3 166 459	2 708 493
Inventory that is expected to be sold after more than 12 months	109 000	177 000
Write-down of inventory to net realisable value and losses of inventory	9 588	8 062
Amounts removed during the year from the cash flow hedging reserve (reducing) increasing the initial cost of inventories	(662)	408

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

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

R000	2015	2014

16. TRADE AND OTHER RECEIVABLES

	2015	2014
Trade receivables	860 804	789 740
Allowance for doubtful receivables	(26 750)	(18 021)
Other receivables	114 506	62 681
Pre-payments	17 613	21 119
Fair value of forward exchange contracts	23 937	
	990 110	855 519
Per category:		
Loans and receivables at amortised cost	966 173	855 519
Derivatives used for hedging	23 937	
	990 110	855 519
Allowance for doubtful receivables:		
Balance at beginning of the year	18 021	17 389
Additional allowance charged to profit	18 432	6 751
Allowance reversed to profit	(2 401)	(2 556)
Allowance utilised	(8 412)	(3 737)
Acquisitions during the year	1 110	174
	26 750	18 021

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 R122 million (2014: R155 million) were past due but not impaired, being customers of whom there is no recent history of default and are aged as follows:

	2015	2014
Less than 30 days since date due	47 296	71 038
Between 31 and 60 days	31 973	40 987
Between 61 and 90 days	21 038	28 678
More than 90 days	21 618	13 877
	121 925	154 580

17. SHAREHOLDERS' EQUITY

17.1 AUTHORISED SHARE CAPITAL

	2015	2014
40 000 000 ordinary shares of 10 cents each	4 000	4 000

17.2 ISSUED SHARE CAPITAL

	2015	2014
34 153 531 ordinary shares	3 415	3 415
Less: 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 (see note 17.5).

17.4 RETAINED INCOME

	2015	2014
Income retained in:		
Company	174 933	170 471
Subsidiary companies	1 535 971	1 357 681
Joint venture	2 966	
	1 713 870	1 528 152

17. SHAREHOLDERS' EQUITY (CONTINUED)

17.5 EMPLOYEE SHARE-BASED REMUNERATION SCHEMES

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

	Number of shares	
000	2015	2014
Total specifically authorised to be issued in terms of all schemes	8 000	8 000
Less:		
Shares issued under the now defunct share option scheme	3 997	3 997
Shares available to be granted in terms of share appreciation bonus scheme in the future	4 003	4 003
Less:		
Shares required to meet obligations in terms of the share appreciation bonus scheme (1)	366	299
	3 637	3 704

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

SHARE APPRECIATION BONUS SCHEME

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

	Weighted average strike price in cents		Number of rights (000)	
	2015	2014	2015	2014
Rights not taken up at beginning of the year	8 590	7 748	2 358	2 127
Rights granted during the year	12 524	9 204	710	932
Forfeited during the year	(3 975)	(9 131)	(2)	(211)
Rights exercised during the year	(6 237)	(5 871)	(378)	(490)
Rights not taken up at end of the year	9 963	8 590	2 688	2 358
First exercisable in the financial years ending:				
November 11		4 847		63
November 12	5 617	5 486	16	83
November 13	5 909	6 006	68	154
November 14	6 382	6 389	111	211
November 15	9 376	9 091	169	233
November 16	9 528	9 528	311	311
November 17	9 497	9 497	557	557
November 18	10 354	9 167	696	450
November 19	10 673	9 204	530	296
November 20	12 524		230	
	9 963	8 590	2 688	2 358

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 a performance test generally based on the growth in Hudaco's comparable earnings per share during the period exceeding inflation plus 5%. The performance factor for the grant awarded in July 2015 is CPI plus 3%. There are no performance factors for lower level participants.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

17. SHAREHOLDERS' EQUITY (CONTINUED)

SHARE MATCHING SCHEME

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

	Weighted average share price in cents		Number of rights (000)	
	2015	2014	**2015**	2014
Rights not taken up at beginning of the year	**10 279**		**8**	
Rights granted during the year	**11 777**	10 279	**44**	8
Rights not taken up at end of the year	**11 547**	10 279	**52**	8

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

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 the Black-Scholes option pricing model with the following inputs:

SHARE APPRECIATION BONUS SCHEME

	Grant 1	Grant 3	Grant 4	Grant 5	Grant 6	Grant 7	Grant 8	Grant 9	Grant 10	Grant 11
Date of grant	7 Jun 06	15 Feb 08	18 Nov 08	1 Jul 09	7 Aug 10	13 Jul 11	27 Jul 12	12 Jul 13	25 Jul 14	10 Jul 15
Number of rights granted	793 500	404 767	120 800	578 500	276 333	277 534	405 433	464 250	932 080	710 300
Rights forfeited	(81 838)	(89 998)	(20 000)	(52 413)	(50 501)	(66 834)	(82 833)	(59 600)		
Rights taken up	(711 662)	(303 767)	(100 800)	(429 591)	(131 835)	(78 965)	(15 314)			
Rights still outstanding		11 002		96 496	93 997	131 735	307 286	404 650	932 080	710 300
Vested rights		11 002		93 319	93 997	68 169	93 700			
Unvested rights				3 177		63 566	213 586	404 650	932 080	710 300
Exercise price (R) – strike price	39,75 (1)	71,45	55,40	50,50	68,09	81,05	109,26	90,80	92,04	125,24
Share price at grant date (R)	47,50	72,00	55,50	55,00	68,99	80,85	108,49	90,30	91,92	129,63
Expected volatility (%) (2)	25	25	25	28	27	34	25	21	21	21
Expected dividend yield (%)	3,8	4,0	4,0	4,0	6,0	5,4	5,2	4,7	4,6	4,3
Risk-free rate (%)	8,2	8,6	8,7	8,6	7,3	7,1	5,9	7,4	7,6	7,8
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)	13,83	19,83	10,77	16,71	12,84	21,66	20,00	18,26	18,96	29,88

SHARE MATCHING SCHEME

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

(1) Weighted average price for 10 trading days prior to grant – subsequently reduced by R3,30 in terms of the scheme rules following a special dividend of R3,30 in 2007.

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

R000	**2015**	2014
Employee share-based payment expense included in operating profit arising from:		
Share appreciation scheme	**10 233**	7 684
Share matching scheme	**1 542**	110
	11 775	7 794

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		23.2.1				
Balance at 30 November 2013	332	408		31 998	37 326	70 064
Comprehensive income for the year		(1 070)	123			(947)
Decrease in equity compensation reserves				(3 179)		(3 179)
Balance at 30 November 2014	332	(662)	123	28 819	37 326	65 938
Less: shares held by subsidiary company	(41)					(41)
Net balance at 30 November 2014	291	(662)	123	28 819	37 326	65 897
Balance at 30 November 2014	**332**	**(662)**	**123**	**28 819**	**37 326**	**65 938**
Comprehensive income for the year		**3 906**	**(201)**			**3 705**
Increase in equity compensation reserves				**5 580**		**5 580**
Balance at 30 November 2015	**332**	**3 244**	**(78)**	**34 399**	**37 326**	**75 223**
Less: shares held by subsidiary company	**(41)**					**(41)**
Net balance at 30 November 2015	**291**	**3 244**	**(78)**	**34 399**	**37 326**	**75 182**

* *Represents an amount formerly held in share premium account transferred in 2001.*

17.7 NON-CONTROLLING INTEREST

	Hudaco Trading Pty Ltd		DD Power Holdings Pty Ltd		Total	
	2015	2014	2015	2014	2015	2014
Proportion of ownership held by non-controlling interests	**15%**	15%	**30%**	30%		
Turnover	**5 212 945**	4 457 237	**288 819**	244 435	**5 501 764**	4 701 672
Profit after tax for the year	**65 484**	44 387	**36 097**	28 430	**101 581**	72 817
Profit allocated to non-controlling interests for the year	**9 822**	6 658	**10 829**	8 529	**20 651**	15 187
Dividends paid to non-controlling interests for the year			**(3 000)**	(1 050)	(3 000)	(1 050)
Comprehensive income for the year allocated to non-controlling interests	**10 360**	6 658	**10 887**	8 335	**21 247**	14 993
Accumulated comprehensive income allocated to non-controlling interests	**6 733**	(3 628)	**44 681**	36 794	**51 414**	33 166
Cash flow from operating activities	**413 308**	405 793	**(2 119)**	29 320	**411 189**	435 113
Non-current assets	**2 625 242**	2 318 743	**11 006**	12 604	**2 636 248**	2 331 347
Current assets	**2 275 953**	1 923 706	**180 855**	152 905	**2 456 808**	2 076 611
Non-current liabilities	**3 141 874**	2 550 811	**846**	577	**3 142 720**	2 551 388
Current liabilities	**2 126 285**	2 121 316	**42 081**	42 329	**2 168 366**	2 163 645

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

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

R000	2015	2014
18. NON-CURRENT LIABILITIES		
18.1 AMOUNTS DUE TO BANKERS		
Unsecured borrowings on a R600 million evergreen revolving credit facility from FirstRand Bank Limited and The Standard Bank of South Africa Limited (50% each). The FirstRand Bank portion bears interest at a rate of JIBAR plus 1,44% and the Standard Bank portion JIBAR plus 1,60%. The banks have the right to call it up on 367 days' notice. The primary financial covenants are that the interest cover ratio shall exceed 4:1 and the net debt to EBITDA ratio shall not exceed 2,5:1.	600 000	
Unsecured borrowings on a R500 million evergreen revolving credit facility from Absa Bank Limited. The facility bears interest at a rate of JIBAR plus 1,44% and the bank has the right to call it up on 367 days' notice. The primary financial covenants are that the interest cover ratio shall exceed 4:1 and the net debt to EBITDA ratio shall not exceed 2,5:1.	200 000	197 000
	800 000	197 000
18.2 AMOUNTS DUE TO VENDORS OF BUSINESSES ACQUIRED		
Estimated amount due to the vendors of Sanderson Special Steels acquired in 2015. The amount includes imputed interest at 8,0% per annum. The amount finally payable (maximum R24,1 million) is subject to adjustment based on earnings of the business, up to February 2017.	15 552	
Estimated amount due to the vendors of Berntel acquired in 2015. The amount includes imputed interest at 8,0% per annum. The amount finally payable (maximum R12,1 million) is subject to adjustment based on earnings of the business, up to November 2016.	8 497	
Estimated amount due to the vendors of Specialised Battery Systems acquired in 2013. The amount includes imputed interest at 8,5% per annum. The amount finally payable (maximum R14,1 million) is subject to adjustment based on earnings of the business, up to February 2016.	13 772	23 440
Estimated amount due to the vendors of Three-D Agencies acquired in 2013. The amount includes imputed interest at 4,7% per annum. The amount finally payable (maximum R5,4 million) is subject to adjustment based on earnings of the business, up to February 2016.	1 732	2 513
Amounts due to the vendors of Proof Engineering acquired in 2012.		2 216
Amounts due to the vendors of Pentagon acquired in 2011.		1 500
Total interest-bearing liabilities	39 553	29 669
Less: payable within 12 months	22 421	17 915
	17 132	11 754

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

	2015	2014
Trade payables	536 774	505 402
Fair value of forward exchange contracts		6 804
Other payables	227 623	198 412
	764 397	710 618
Included in other payables are payroll and other accruals.		
Per category:		
At amortised cost	764 397	703 814
Derivatives for hedging		6 804
	764 397	710 618

20. ACQUISITION OF BUSINESSES

R000	Partquip Group	Berntel	Sanderson Special Steels	Total 2015	Total 2014
Effective date of control	1-Dec-14	1-Dec-14	1-Sep-15		
Fair value of assets acquired:					
Plant and equipment	11 859	82	410	12 351	17 742
Investment in joint venture	6 171			6 171	
Goodwill	249 747	11 659	9 201	270 607	111 782
Intangible assets	57 513	1 857	2 150	61 520	16 902
Bank balances (overdraft)	101 510	319	8 620	110 449	(7 229)
Inventories	128 172	1 711	12 218	142 101	31 500
Trade and other receivables	106 280	1 730	20 315	128 325	40 588
Trade and other payables	(101 653)	(1 940)	(15 003)	(118 596)	(42 525)
Taxation	(16 484)		(1 202)	(17 686)	(8 060)
Deferred taxation	(12 083)	(810)	(1 142)	(14 035)	(6 480)
Net operating assets acquired	531 032	14 608	35 567	581 207	154 220
Bank (balances) overdraft assumed	(101 510)	(319)	(8 620)	(110 449)	7 229
Balance owed to vendors at acquisition date		(7 846)	(14 978)	(22 824)	
Net cash outflow on acquisitions	429 522	6 443	11 969	447 934	161 449

	2015	2014
Profit after tax since acquisition date included in the consolidated results for the year	88 613	32 251
Turnover since acquisition date included in the consolidated results for the year	681 999	239 656
Group profit after tax had the business combinations been included for the entire year	392 461	17 813
Group turnover had the business combinations been included for the entire year	5 270 316	4 479 794

21. DIVIDENDS

	2015	2014
Dividend number 56 of 310 cents per share declared on 29 January 2015	105 876	105 876
The record date was 6 March 2015 and the dividend was paid on 9 March 2015		
Dividend number 57 of 180 cents per share declared on 25 June 2015	61 476	52 938
The record date was 14 August 2015 and the dividend was paid on 17 August 2015		
Dividends paid to subsidiary company	(12 288)	(11 661)
	155 064	147 153

On 28 January 2016, the directors declared dividend number 58 of 345 cents per share, being the final dividend in respect of the year ended 30 November 2015. The record date will be 4 March 2016 and the dividend will be paid on 7 March 2016. This dividend has not been included as a liability in these financial statements.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

R000	2015	2014

22. NOTES TO THE STATEMENT OF CASH FLOWS

22.1 INCREASE IN WORKING CAPITAL

Increase in inventories	(85 455)	(5 189)
Increase in trade and other receivables	(6 266)	(34 304)
Decrease in trade and other payables	(64 817)	(4 570)
	(156 538)	(44 063)

22.2 TAXATION PAID

Net amounts paid in advance (owed) at beginning of the year	5 567	(2 936)
Current tax charge	(168 201)	(125 738)
Prior year (under) over provision	(1 539)	889
Foreign tax charge	(442)	243
Capital gains tax		(5)
Acquired during the year	(17 686)	(8 060)
Net amounts paid in advance at end of the year	(3 400)	(5 567)
Tax paid excluding tax settlement	(185 701)	(141 174)
Amounts (owed) paid in advance at beginning of year pertaining to tax dispute	(192 000)	40 000
Tax settlement charge for the year		(312 000)
Amounts owed at end of year in terms of settlement of tax dispute		192 000
Tax settlement paid	(192 000)	(80 000)
	(377 701)	(221 174)

22.3 PAYMENTS TO VENDORS OF BUSINESSES ACQUIRED

Amounts owed at beginning of the year	(29 669)	(92 554)
Interest imputed on amounts owed	(2 528)	(1 984)
Acquisitions during the year	(22 824)	
Adjustment to purchase price (debited) credited to statement of income	(2 289)	2 237
Amounts owed at end of the year	39 553	29 669
	(17 757)	(62 632)

22.4 FINANCE COSTS PAID

Finance costs	(75 581)	(39 404)
Imputed on amounts due to vendors of businesses acquired	2 528	1 984
	(73 053)	(37 420)

22.5 DIVIDENDS PAID

To shareholders of the group	(155 064)	(147 153)
To non-controlling shareholders	(3 000)	(1 050)
	(158 064)	(148 203)

22.6 NET BANK OVERDRAFT

Bank deposits and balances	39 058	41 624
Bank overdraft	(254 972)	(257 164)
	(215 914)	(215 540)

R000	2015	2014

23. COMMITMENTS

23.1 OPERATING LEASE ARRANGEMENTS

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

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

R000	2015	2014
Within one year	84 337	67 004
Payable in second to fifth years	154 621	137 897
Payable thereafter	5 974	32 159
	244 932	237 060

23.2 PROPERTY, PLANT AND EQUIPMENT

The group has budgeted to spend R58 million to acquire property, plant and equipment in 2016, none of which is committed or contracted for. Total capital expenditure will be financed by net cash flow from operations and the utilisation of unutilised borrowing facilities.

23.3 ACQUISITIONS

After year end the group acquired the businesses of Hydraulic Engineering Repair Services and All-Trade Distributors for considerations totalling a maximum of R133 million. Refer note 26.

24. FINANCIAL INSTRUMENTS

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

24.1 SUMMARY OF FINANCIAL INSTRUMENTS

24.1.1 CARRYING VALUE OF FINANCIAL INSTRUMENTS

R000	2015	2014
Financial assets by class:		
Trade receivables	834 054	771 719
Other receivables	114 506	62 681
Fair value of forward exchange contracts	23 937	
Bank deposits and balances	39 058	41 624
	1 011 555	876 024
Financial assets by category:		
Loans and receivables at amortised cost	987 618	876 024
Derivatives used for hedging at fair value	23 937	
	1 011 555	876 024
Financial liabilities by class:		
Amounts due to vendors of businesses acquired	39 553	29 669
Amount due to bankers	800 000	197 000
Bank overdraft	254 972	257 164
Trade payables	536 774	505 402
Fair value of forward exchange contracts		6 804
Other payables	227 623	198 412
	1 858 922	1 194 451
Financial liabilities by category:		
Financial liabilities at amortised cost	1 858 922	1 187 647
Derivatives used for hedging at fair value		6 804
	1 858 922	1 194 451

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

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

R000	2015	2014

24. FINANCIAL INSTRUMENTS (CONTINUED)

24.1 SUMMARY OF FINANCIAL INSTRUMENTS (CONTINUED)

24.1.2 FAIR VALUE OF FINANCIAL INSTRUMENTS

R000	2015	2014
Financial assets by class:		
Trade receivables	834 054	771 719
Other receivables	114 506	62 681
Fair value of forward exchange contracts	23 937	
Bank deposits and balances	39 058	41 624
	1 011 555	876 024
Financial liabilities by class:		
Amounts due to vendors of businesses acquired	39 553	29 669
Amount due to bankers	800 000	197 000
Bank overdraft	254 972	257 164
Trade payables	536 774	505 402
Fair value of forward exchange contracts		6 804
Other payables	227 623	198 412
	1 858 922	1 194 451

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

24.2 MARKET RISK

24.2.1 FOREIGN CURRENCY RISK

The group imports more than 60% 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.

Cash flow hedges – at 30 November 2015 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	8,52	340 836	8,71	39 132
US Dollar	14,42	5 776	14,08	81 297
Australian Dollar	14,05	4	14,05	56
Pound Sterling	21,76	435	21,33	9 276
Euro	15,26	1 258	15,11	19 008
Total cost of contracts				148 769
Fair value – Rand equivalent of the above contracts at year end spot rates				152 013
Profit recognised directly in equity on import orders (note 17.6) *				3 244
Attributable to non-controlling shareholders				490
Attributable to shareholders of the group				2 754

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

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

24. FINANCIAL INSTRUMENTS (CONTINUED)

24.2 MARKET RISK (CONTINUED)

24.2.2 INTEREST RATE RISK

The group may use 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 %	2015 R000	2014 R000
Amount due to bankers	2017	JIBAR plus premium	800 000	197 000
Amounts due to vendors of businesses acquired				
– Sanderson Special Steels	2016 – 2018	8,0	15 552	
– Berntel	2016 – 2017	8,0	8 497	
– Specialised Battery Systems	2015 – 2016	8,5	13 772	23 440
– Three-D Agencies	2015 – 2016	4,7	1 732	2 513
– Proof Engineering	2015	5,3		2 216
– Pentagon	2015	5,2		1 500

A change of 1% in the interest rate charged on non-current borrowings will affect profit after tax by approximately R5,8 million (2014: R1,4 million) per year and profit attributable to shareholders of the group by R4,9 million (2014: R1,2 million).

24.3 CREDIT RISK

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

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

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

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

R000	2015	2014
Trade receivables	834 054	771 719
Other receivables	114 506	62 681
Bank deposits and balances	39 058	41 624
	987 618	876 024

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 2015 were R551 million.

There is no restriction on borrowing powers in terms of the memorandum of incorporation and at 30 November 2015 the group's banking facilities substantially exceeded its forecast requirements for the forthcoming year.

The maturity profile of financial liabilities is as follows:

	Total	Repayable during the year ending	
R000	owing 2015	30 November 2016	30 November 2017 to 2018
Amount due bankers	800 000		800 000
Amounts due to vendors of businesses acquired	39 553	22 421	17 132
Bank overdraft	254 972	254 972	
Trade payables	536 774	536 774	
Other payables	227 623	227 623	

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

R000	2015	2014

24. FINANCIAL INSTRUMENTS (CONTINUED)

24.5 FAIR VALUE OF FINANCIAL INSTRUMENTS

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

R000	2015	2014
Cash flow hedges (note 24.2.1)	3 244	(789)
Fair value hedges (on contracts of R584 million at year end spot rates)	20 693	(6 015)
	23 937	(6 804)

The book value of all non-derivative financial instruments approximates their fair value at 30 November 2015.

24.6 CAPITAL MANAGEMENT

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

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

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.

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.

Contributions to retirement funding during the year amounted to R46,2 million (2014: R39,6 million). All permanent employees are required to become members of one of these plans unless they are obliged by legislation to be members of various industry funds.

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

26. EVENTS AFTER REPORTING DATE

On 1 December 2015 Hudaco acquired the trading assets and liabilities of Hydraulic Engineering Repair Services (HERS), a manufacturer and repairer of drivetrains and hydraulic cylinders and on 1 January 2016 Hudaco acquired the trading assets and liabilities of All-Trade Distributors, a distributor of fasteners, as a bolt-on operation to Rutherford.

HERS was acquired on an earn-out and the final consideration is dependent on the average profit for the two years ending 30 November 2017 with a maximum consideration of R100 million. All-Trade Distributors was acquired on an earn-out and the final consideration is dependent on the average profit for the two years ending 31 December 2017 with a maximum consideration of R33 million.

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

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

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

R000	Hydraulic Engineering Repair Services	All-Trade Distributors	Total
Plant and equipment	2 879	1 301	**4 180**
Goodwill	24 832	8 820	**33 652**
Intangible assets	5 802	1 824	**7 626**
Cash and cash equivalents	5 000	2 000	**7 000**
Inventories	19 475	8 311	**27 786**
Trade and other receivables	19 388	3 202	**22 590**
Trade and other payables	(11 894)	(500)	**(12 394)**
Deferred taxation	(1 625)	(511)	**(2 136)**
Net operating assets acquired	63 857	24 447	**88 304**

Had these businesses been acquired at the beginning of the year, additional turnover of R140 million and profit after tax of R8 million would have been included in the consolidated statement of comprehensive income. The consolidated turnover, including these results, would have been R5 370 million and the profit after tax R394 million.

27. DIRECTORS' INTERESTS AND REMUNERATION

27.1 INTERESTS OF DIRECTORS IN THE SHARE CAPITAL OF THE COMPANY

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

	Beneficial		Non-beneficial	
	2015	2014	**2015**	2014
RT Vice	**4 000**	4 000		
SJ Connelly	**274 139**	274 139	**1 680**	1 680
CV Amoils	**19 323**	3 717	**7 500**	7 500
GR Dunford	**107 127**	36 490	**970 812**	934 000
	404 589	318 346	**979 992**	943 180

The shareholdings above have not changed between 30 November 2015 and the date of the notice of the annual general meeting.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

27. DIRECTORS' INTERESTS AND REMUNERATION (CONTINUED)

27.2 DIRECTORS' INTERESTS IN THE SHARE APPRECIATION BONUS SCHEME AND THE SHARE MATCHING SCHEME

27.2.1 THE DIRECTORS HAVE THE FOLLOWING RIGHTS IN TERMS OF THE SHARE APPRECIATION BONUS SCHEME:

	Outstanding rights beginning of year	Strike price R	Granted during the year	Taken up during the year	Outstanding rights end of year	Date granted	Number of tranches	Date benefit to be determined	Gains on rights taken up (1) R000
2015									
CV Amoils	253 100		45 600	21 667	277 033				1 731
	65 000	50,50		21 667	43 333	01 Jul '09	3	Jul '12 – Jul '18	1 731
	30 000	68,09			30 000	07 Aug '10	3	Aug '13 – Aug '19	
	27 000	81,05			27 000	13 Jul '11	3	Jul '14 – Jul '20	
	30 000	109,26			30 000	27 Jul '12	3	Jul '15 – Jul '21	
	27 000	90,80			27 000	12 Jul '13	3	Jul '16 – Jul '22	
	74 100	92,04			74 100	25 Jul '14	3	Jul '17 – Jul '23	
		125,24	45 600		45 600	10 Jul '15	3	Jul '18 – Jul '24	
GR Dunford	406 666		90 000	128 540	368 126				8 551
	21 666	39,75		21 666		06 Jul '06	3	Jul '09 – Jul '15	1 922
	20 000	71,45		20 000		15 Feb '08	3	Feb '11 – Feb '17	1 143
	45 000	50,50		44 040	960	01 Jul '09	3	Jul '12 – Jul '18	3 551
	25 500	68,09		25 500		07 Aug '10	3	Aug '13 – Aug '19	1 070
	26 000	81,05		17 334	8 666	13 Jul '11	3	Jul '14 – Jul '20	865
	32 000	109,26			32 000	27 Jul '12	3	Jul '15 – Jul '21	
	28 000	90,80			28 000	12 Jul '13	3	Jul '16 – Jul '22	
	208 500	92,04			208 500	25 Jul '14	3	Jul '17 – Jul '23	
		125,24	90 000		90 000	10 Jul '15	3	Jul '18 – Jul '24	
	659 766		135 600	150 207	645 159				10 282
2014									
CV Amoils	179 000		74 100		253 100				
	65 000	50,50			65 000	01 Jul '09	3	Jul '12 – Jul '18	
	30 000	68,09			30 000	07 Aug '10	3	Aug '13 – Aug '19	
	27 000	81,05			27 000	13 Jul '11	3	Jul '14 – Jul '20	
	30 000	109,26			30 000	27 Jul '12	3	Jul '15 – Jul '21	
	27 000	90,80			27 000	12 Jul '13	3	Jul '16 – Jul '22	
		92,04	74 100		74 100	25 Jul '14	3	Jul '17 – Jul '23	
GR Dunford	219 833		208 500	21 667	406 666				1 208
	43 333	39,75		21 667	21 666	06 Jul '06	3	Jul '09 – Jul '15	1 208
	20 000	71,45			20 000	15 Feb '08	3	Feb '11 – Feb '17	
	45 000	50,50			45 000	01 Jul '09	3	Jul '12 – Jul '18	
	25 500	68,09			25 500	07 Aug '10	3	Aug '13 – Aug '19	
	26 000	81,05			26 000	13 Jul '11	3	Jul '14 – Jul '20	
	32 000	109,26			32 000	27 Jul '12	3	Jul '15 – Jul '21	
	28 000	90,80			28 000	12 Jul '13	3	Jul '16 – Jul '22	
		92,04	208 500		208 500	25 Jul '14	3	Jul '17 – Jul '23	
	398 833		282 600	21 667	659 766				1 208

Participants in the scheme will receive a bonus, settled in Hudaco shares, equal to the appreciation in the Hudaco share price between the date of grant (strike price) and the date exercised, multiplied by the number of rights granted. It is Hudaco's policy to acquire these shares on the open market and not to issue new shares. Tranche 1 vests three years after grant, tranche 2 vests four years after grant and tranche 3 vests five years after grant. Each tranche must be taken up within four years of vesting. The number of rights that may be taken up in each tranche is subject to a performance test based on the growth in Hudaco's comparable earnings during the period, generally of CPI plus 5%. The performance test for the grant issued in July 2015 is CPI plus 3%.

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

27. DIRECTORS' INTERESTS AND REMUNERATION (CONTINUED)

27.2.2 THE DIRECTORS HAVE THE FOLLOWING RIGHTS IN TERMS OF THE SHARE MATCHING SCHEME:

000	Balance at the beginning of the year	Granted during the year	Balance at the end of the year
CV Amoils	4	8	12
GR Dunford	4	7	11
	8	15	23

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

27.3 DIRECTORS' REMUNERATION

Non-executive directors R000	Base fee	Bonus on share appreciation rights exercised (2)	Consulting fee	Total Remuneration
2015				
RT Vice	**840**			**840**
PC Baloyi (6)	**148**			**148**
SJ Connelly (5)	**279**	**9 362**	**374**	**10 015**
SG Morris	**558**			**558**
N Mandindi (3)	**170**			**170**
D Naidoo	**449**			**449**
	2 444	**9 362**	**374**	**12 180**
2014				
RT Vice	797			797
PC Baloyi	395			395
SJ Connelly			936	936
SG Morris	454			454
D Naidoo	418			418
	2 064		936	3 000

Executive directors paid by subsidiaries for managerial services R000	Fixed remune-ration	Retirement fund contri-butions	Other benefits	Perfor-mance-related remune-ration	Total before share-based payments	Share-based pay-ments (1)	Total remune-ration	Bonus on share appreciation rights exercised (2)
2015								
CV Amoils	**2 479**	**282**	**202**	**4 230**	**7 193**	**1 243**	**8 436**	**1 731**
GR Dunford	**3 625**	**459**	**150**	**6 850**	**11 084**	**1 862**	**12 946**	**8 551**
	6 104	**741**	**352**	**11 080**	**18 277**	**3 105**	**21 382**	**10 282**
2014								
SJ Connelly (5)	2 214	250	454	1 100	4 018		4 018	11 617
CV Amoils	2 215	254	199	1 800	4 468	887	5 355	
GR Dunford (4)	2 696	344	278	1 700	5 018	971	5 989	1 208
	7 125	848	931	4 600	13 504	1 858	15 362	12 825

(1) The fair value of share appreciation bonus rights granted is the annual expense in terms of IFRS 2.
(2) This represents the difference between the market price and the strike price on the date the rights were exercised. The fair value of the rights at grant date has been expensed in prior years in terms of IFRS 2 so there is an element of double counting.
(3) Appointed on 1 June 2015.
(4) Appointed chief executive on 1 July 2014.
(5) SJ Connelly remained entitled to an award determined by the increase in the Hudaco share price on 312 692 shares from R95,30 to the 10-day volume weighted average price at date not later than 30 June 2015 following his retirement as chief executive on 30 June 2014.
(6) Resigned on 19 March 2015.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

28. RELATED PARTY TRANSACTIONS

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

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

Hudaco has no material associates or joint venture partners. The company and its subsidiaries do have dealings with each other but these are eliminated on consolidation and are not dealt with in this note. A list of principal subsidiaries is provided on page 114.

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	2015	2014
Compensation of key management personnel		
Short-term employee benefits	39 526	29 681
Share-based payments (1)	5 521	3 584
	45 047	33 265

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

In addition to the above, key management personnel have exercised share appreciation rights during the year with a difference between the market price at exercise date and the strike price amounting to R18,3 million (2014: R15,3 million). The fair value at grant date of these rights has been expensed in terms of IFRS 2 in prior years so there is an element of double counting.

DIRECTORS

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

GR Dunford, chief executive of Hudaco, is 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 R1 660 372 (2014: R1 531 896). This lease expires on 31 December 2016. Rental paid in respect of Dosco Precision Hydraulics amounted to R1 281 165 (2014: R1 186 264), Gear Pump Manufacturing amounted to R1 428 173 (2014: R1 313 904) and Joseph Grieveson amounted to R2 280 658 (2014: R2 111 720). These leases expire on 30 March 2019, 30 June 2018 and 30 June 2017, respectively.

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

29. SEGMENT INFORMATION

R million	Group 2015	Group 2014	Head office, shared services and eliminations 2015	Head office, shared services and eliminations 2014	Consumer-related-products 2015	Consumer-related-products 2014	Engineering consumables 2015	Engineering consumables 2014
Statement of net income								
Turnover	5 230	4 480	(8)	(5)	2 603	1 718	2 635	2 767
– Ongoing operations	4 548	4 480	(8)	(5)	1 947	1 718	2 609	2 767
– Operations acquired in 2015	682				656		26	
EBITDA	673	547	(33)	(22)	412	230	294	339
Depreciation less recoupments	39	33	2	1	14	9	23	23
Amortisation of intangible assets	29	20			18	6	11	14
Operating profit	605	494	(35)	(23)	380	215	260	302
– Ongoing operations	482	494	(35)	(23)	261	215	256	302
– Operations acquired in 2015	123				119		4	
Fair value adjustments to amounts due to vendors	(2)	3			(2)	(2)		5
Profit before interest	603	497	(35)	(23)	378	213	260	307
Statement of financial position								
Property, plant and equipment	261	257			55	44	206	213
Investment in joint venture	7				7			
Goodwill	1 001	730			469	219	532	511
Intangible assets	69	36			50	9	19	27
Deferred taxation – net	15	1	17	9	2	(3)	(4)	(5)
Inventories	1 369	1 141			614	366	755	775
Trade and other receivables	990	856	34	2	473	368	483	486
Trade and other payables	(764)	(711)	(10)	(2)	(411)	(318)	(343)	(391)
Taxation	3	(186)	65	(124)	(40)	(30)	(22)	(32)
Net operating assets	2 951	2 124	106	(115)	1 219	655	1 626	1 584
Additional information								
Average net operating assets	2 708	2 383	(22)	105	1 072	673	1 658	1 605
Capital expenditure	37	64			16	22	21	42
Operating profit margin (%)	11,6	11,0			14,6	12,5	9,9	10,9
Return on average net operating assets (%)	22,4	20,5			35,4	31,9	15,7	18,8
Number of permanent employees	2 980	2 835	22	23	865	666	2 093	2 146

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 2015

R000	2015	2014
Assets		
Non-current assets		
Interest in subsidiaries (note 1)	231 180	226 705
Current assets		
Receivables	256	256
Total assets	231 436	226 961
Equity and liabilities		
Shareholders' equity	230 213	225 751
Current liabilities		
Payables and taxation	1 223	1 210
Total equity and liabilities	231 436	226 961

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 NOVEMBER 2015

R000	2015	2014
Dividends received from subsidiaries	175 000	
Operating costs	3 186	2 663
Profit (loss) before interest	171 814	(2 663)
Finance revenue		3
Profit (loss) after taxation	171 814	(2 660)

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 NOVEMBER 2015

R000	Share capital	Share premium	Special reserve account *	Retained income	Share-holders' equity
Balance at 30 November 2013	3 415	51 533	332	331 945	387 225
Loss after taxation				(2 660)	(2 660)
Dividends to shareholders				(147 153)	(147 153)
Dividends to subsidiary				(11 661)	(11 661)
Balance at 30 November 2014	3 415	51 533	332	170 471	225 751
Profit after taxation				171 814	171 814
Dividends to shareholders				(155 064)	(155 064)
Dividends to subsidiary				(12 288)	(12 288)
Balance at 30 November 2015	3 415	51 533	332	174 933	230 213

** Represents an amount formerly held in share premium account transferred in 2001.*

HUDACO INDUSTRIES LIMITED

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 NOVEMBER 2015

R000	2015	2014
Cash generated from operating activities		
Dividends received	175 000	
Interest received		3
Operating costs paid	(3 186)	(2 663)
Decrease in working capital	13	142
Cash utilised in operating activities	171 827	(2 518)
Taxation refunded		137
Cash flow from operations	171 827	(2 381)
Dividends paid	(167 352)	(158 814)
Net cash retained (applied)	4 475	(161 195)
Cash applied to investment activities		
(Increase) decrease in loans to subsidiary companies	(4 475)	161 193
Net cash applied	0	(2)

NOTES TO THE COMPANY FINANCIAL STATEMENTS

R000	2015	2014
1. INTEREST IN SUBSIDIARIES		
Shares at cost less amounts written off	92 275	92 275
Loans to subsidiaries	138 905	134 430
	231 180	226 705

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 114.

	2015	2014
2. AUDITOR'S REMUNERATION		
Audit fees for the current year	110	105

3. CONTINGENT LIABILITY

The company has guaranteed the senior banking facilities of Hudaco Trading Pty Ltd. The maximum exposure in this regard is approximately R1 894 million and the exposure is R1 222 million at year end.

PRINCIPAL SUBSIDIARIES
AT 30 NOVEMBER 2015

	Issued share capital Rand	Interest of holding company: Group's effective interest 2015 %	2014 %	Book value of shares 2015 R000	2014 R000	Loans owing by 2015 R000	2014 R000
Dosco Precision Hydraulics Pty Ltd	100	**85** (2)	85 (2)				
Gear Pump Manufacturing Pty Ltd	100	**85** (2)	85 (2)				
Hudaco Trading Pty Ltd	2 000	**85** (1)	85 (1)	**2**	2		
Operating businesses							
Abes Technoseal							
Ambro Sales							
Astore Africa							
Bauer Geared Motors							
Bearings International							
Belting Supply Services							
Berntel							
Bosworth							
Deltec							
Deutz Dieselpower							
Elvey Security Technologies							
Ernest Lowe							
Filter and Hose Solutions							
Global Communications							
Keymak							
Pentagon							
Powermite							
Proof Engineering							
Rutherford							
Sanderson Special Steels							
Specialised Battery Systems							
Three-D Agencies							
Varispeed							
Hudaco Investment Company Limited	26 160	**100**	100	**48 158**	48 158	**138 905**	134 430
Barbara Road Investments Pty Ltd	100	**100**	100				
DD Power Holdings Pty Ltd	300 000	**70** (3)	70 (3)				
DD Power Pty Ltd	7 450 000	**70**	70				
Joseph Grieveson Pty Ltd	100 000	**85** (2)	85 (2)				
Partquip Group Pty Ltd	776 996	**85** (2)					
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	**138 905**	134 430

(1) 15% of the shares in Hudaco Trading Pty Ltd are held by the following BEE shareholders: Ulwazi Consortium – 4,17%; The Hudaco Trading BEE Staff Education Trust – 5,83%; The Hudaco Broad-Based BEE Foundation – 5%.

(2) Subsidiary of Hudaco Trading Pty Ltd – see note 1.

(3) 30% of the shares in DD Power Holdings Pty Ltd are held by Deutz AG.

A complete list of subsidiaries is available to shareholders on request at the registered office of the company.

SHAREHOLDER ANALYSIS
AS AT 27 NOVEMBER 2015

Shareholder analysis	Number of shareholders	Number of shares	% of issued shares
Portfolio size			
1 – 1 000 shares	2 224	773 483	2,44
1 001 – 5 000 shares	618	1 396 825	4,41
5 001 – 10 000 shares	113	849 991	2,69
10 001 – 100 000 shares	197	6 733 240	21,28
Over 100 000 shares	64	21 892 164	69,18
Total (1)	3 216	31 645 703	100,00
Category			
Banks and nominee companies	18	1 785 340	5,64
Financial institutions and pension funds	240	24 365 043	76,99
Individuals	2 900	4 695 478	14,84
Other corporate bodies	58	799 842	2,53
Total (1)	3 216	31 645 703	100,00
Shareholder spread			
Public	3 196	29 816 256	94,22
Non-public	20	1 829 447	5,78
Directors and associates (2)	19	1 825 247	5,77
Share trust	1	4 200	0,01
Total (1)	3 216	31 645 703	100,00

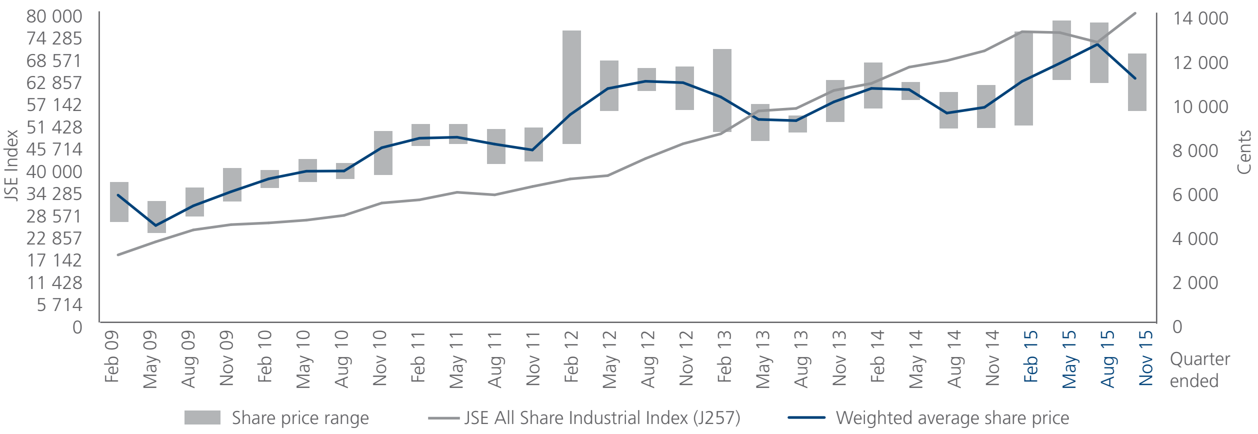
Major shareholders	Number of shares	% of issued shares
Beneficial shareholders holding more than 3%		
Public Investment Corporation GEPF	3 465 833	10,95
Old Mutual Life Assurance	1 370 736	4,33
Nedgroup Investments Value Fund	1 163 006	3,68
Dunford Holdings Pty Ltd	970 812	3,07
Fund managers holding more than 3%		
Old Mutual	3 645 878	11,52
Sanlam Group	3 490 705	11,03
Public Investment Corporation	3 218 750	10,17
Prudential Group	2 821 928	8,92
PSG Group Limited	1 849 300	5,84
Three Six One Asset Management	1 603 071	5,07
Foord Asset Management	1 425 132	4,50
Bateleur Capital Pty Ltd	1 151 150	3,64
Argon Asset Management	1 026 688	3,24

(1) Excludes 2 507 828 shares held by a subsidiary company.

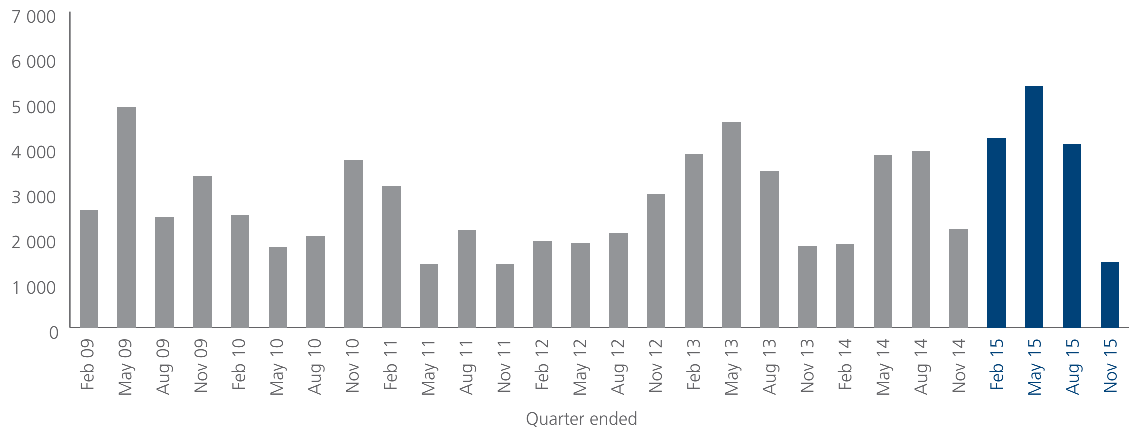
(2) Directors' shareholdings are set out in note 27.1 to the financial statements.

SHARE INFORMATION

SHARE PRICE HISTORY



VOLUME TRADED ON JSE (000)



JSE statistics	2015	2014	2013	2012	2011	2010	2009
Market price (cents)	10 701	9 590	10 365	11 200	8 475	8 501	6 600
NAV per share (cents)	5 827	5 210	5 737	5 277	4 721	4 080	3 681
Number of shares in issue (000) *	31 646	31 646	31 646	31 646	31 646	31 540	31 240
Market capitalisation (Rm) *	3 386	3 035	3 280	3 544	2 682	2 681	2 062
Price: earnings ratio (times)	9,2	10,3	9,6	10,4	10,1	10,9	7,2
All Share Industrial Index PE ratio (J257)	22,6	21,6	21,0	18,7	17,4	17,3	15,9
Dividend yield (%)	4,9	4,8	4,5	4,2	4,3	4,1	5,8
All Share Industrial Index dividend yield (J257) (%)	2,3	2,2	2,2	2,4	2,6	2,1	2,2
Annual trade in Hudaco shares							
Number of transactions recorded	36 271	22 549	23 223	12 034	7 427	5 506	4 963
Volume of shares traded (000)	17 211	13 475	15 638	10 121	9 242	11 461	15 113
% of issued shares traded *	54	43	48	32	29	36	48
Value of shares traded (Rm)	2 007	1 354	1 496	1 062	757	822	791

** Excludes 2 507 828 shares held by a subsidiary company.*

NOTICE OF ANNUAL GENERAL MEETING

HUDACO INDUSTRIES LIMITED

(Incorporated in the Republic of South Africa)
(Registration number 1985/004617/06)
Share code: HDC ISIN code: ZAE000003273
("Hudaco" or "the company")

NOTICE TO SHAREHOLDERS OF THE 31ST ANNUAL GENERAL MEETING (AGM) OF HUDACO INDUSTRIES LIMITED

Notice is hereby given that the 31st AGM of shareholders of the company for the year ended 30 November 2015 will be held at 11:00 on Wednesday, 9 March 2016 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]	2016
Record date for determining which shareholders are entitled to receive the AGM notice	Friday, 29 January
Notice posted to shareholders on	Friday, 5 February
Record date for attending and voting at the AGM [3]	Friday, 4 March
Last day for shareholders to lodge forms of proxy for the AGM by 11:00	Monday, 7 March
AGM to be held at 11:00	Wednesday, 9 March
Results of AGM to be released on SENS on	Wednesday, 9 March

Notes

(1) *All times referred in this notice are local times in South Africa.*

(2) *Any material variation of the above dates and times will be announced on SENS and published in the press.*

(3) *The Hudaco board of directors ("the board") has determined that the record date for the purpose of determining which shareholders are entitled to receive the AGM notice is Friday, 29 January 2016, and the record date for purposes of determining which shareholders of the company are entitled to participate and vote at the AGM is Friday, 4 March 2016. Accordingly, only shareholders who are recorded as such in the register maintained by the transfer secretaries of the company on Friday, 4 March 2016 will be entitled to participate in and vote at the AGM.*

(4) *Kindly note that AGM participants (including shareholders and proxies) are required to provide satisfactory picture identification before being entitled to attend or participate at the AGM. Forms of satisfactory identification include valid identity documents, driver's licences and passports.*

BUSINESS TO BE TRANSACTED

The purpose of the AGM is for the following business to be transacted and the following resolutions to be proposed, all of them ordinary resolutions unless the contrary appears:

1. To present the audited consolidated financial statements of the company (as approved by the board), as well as the external auditor, audit and risk management committee, social and ethics committee and directors' reports for the financial year ended 30 November 2015, distributed as required.

   Copies of the integrated report which contains the full audited consolidated annual financial statements for the year ended 30 November 2015 are obtainable from the company's website: www.hudaco.co.za or from the group secretary.

2. ORDINARY RESOLUTION NUMBER 1: TO RE-ELECT DIRECTORS RETIRING BY ROTATION

To re-elect as directors, each by way of a separate vote the following directors who are required to retire in terms of clause 21.6.1 of the company's Memorandum of Incorporation (MOI) and who are eligible and have offered themselves for re-election:

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

2.2 Ordinary Resolution Number 1.2: Re-election of Mr GR Dunford; and

2.3 Ordinary Resolution Number 1.3: Re-election of Mr SG Morris.

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.

Note

In terms of clause 21.6.1 of the company's MOI at least one third of the directors must retire each year and are eligible for re-election. The directors who shall retire shall be the longest serving directors since their last election. Brief curricula vitae of directors who have offered themselves for re-election are included on pages 20 and 21 of the Hudaco integrated report, which is available on the company's website: www.hudaco.co.za or from the group secretary.

NOTICE OF ANNUAL GENERAL MEETING
(CONTINUED)

3. ORDINARY RESOLUTION NUMBER 2: TO ELECT A DIRECTOR APPOINTED SINCE THE PREVIOUS AGM

To elect as director Ms N Mandindi, 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 herself 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 re-election of Ms N Mandindi. It is the view of the board that re-election of this candidate 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 Ms Mandindi is included on page 20 of the Hudaco integrated report.

4. ORDINARY RESOLUTION NUMBER 3: TO APPROVE THE RE-APPOINTMENT OF EXTERNAL AUDITORS

To re-appoint Grant Thornton as independent auditors of Hudaco and to note that the individual registered auditor who will undertake the audit for the financial year ending 30 November 2016 is Ms VR de Villiers.

The audit and risk management committee of the company has concluded that the appointment of Grant Thornton will comply with the requirements of the Companies Act, 71 of 2008 (the Companies Act) and the Companies Regulations 2011, and has accordingly nominated Grant Thornton for re-appointment as auditors of the company.

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 Mr SG Morris as member; subject to the passing of Ordinary Resolution Number 1.3;

5.2 Ordinary Resolution Number 4.2: To elect Ms N Mandindi as member, subject to the passing of Ordinary Resolution Number 2; and

5.3 Ordinary Resolution Number 4.3: To elect Ms D Naidoo 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.

6. SPECIAL RESOLUTION NUMBER 1: APPROVAL OF NON-EXECUTIVE DIRECTORS' REMUNERATION

That the remuneration payable to the non-executive directors of Hudaco for their services as directors for the period 1 April 2016 until 31 March 2017, be and it is hereby approved as set out below:

	Proposed 2016		2015	
R	Base fee	Penalty for non-attendance	Base fee	Penalty for non-attendance
Board				
Chairman of the board	R920 000 *	R17 000	R860 000 *	R16 000
Board member	R246 000	R12 000	R230 000	R11 000
Audit and risk management committee				
Chairman of the committee	R214 000	R17 000	R200 000	R16 000
Committee member	R118 000	R12 000	R110 000	R11 000
Remuneration committee				
Chairman of the committee	R150 000	R17 000	R140 000	R16 000
Committee member	R38 000	R6 000	R35 000	R5 500
Nomination committee				
Chairman of the committee	*		*	
Committee member	R38 000	R6 000	R35 000	R 5 500
Social and ethics committee				
Chairman of the committee	R128 000	R17 000	R120 000	R16 000
Member of the committee	R38 000	R6 000	R35 000	R5 500

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 – R25 000 (2015: R23 500), Member – R18 000 (2015: R17 000).

** All inclusive fee.*

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 2016 until 31 March 2017. The fees payable to the non-executive directors are detailed above. Further details on the basis of calculation of remuneration are included in the remuneration report on pages 35 to 37 of the Hudaco integrated report.

7. NON-BINDING RESOLUTION NUMBER 1: ENDORSEMENT OF HUDACO'S REMUNERATION POLICY

That shareholders endorse, through a non-binding advisory note to ascertain the shareholders' view, Hudaco's remuneration policy and its implementation. Hudaco's remuneration report is set out on pages 35 to 37 of its integrated report.

In terms of the King Code of Governance for South Africa 2009, an advisory note should be obtained from shareholders on the company's annual remuneration policy. The vote allows shareholders to express their view on the remuneration policies adopted and their implementation, but will not be binding on the company.

NOTICE OF ANNUAL GENERAL MEETING
(CONTINUED)

8. SPECIAL RESOLUTION NUMBER 2: AUTHORISING THE PROVISION OF FINANCIAL ASSISTANCE TO SUBSIDIARIES

That the board of directors of the company be and they are hereby authorised, to the extent required by and subject to section 45 of the Companies Act and the requirements, if applicable of: (i) the MOI; and (ii) the JSE Limited (JSE) Listings Requirements, to cause the company to provide direct or indirect financial assistance to a subsidiary or joint venture of Hudaco, provided that no such financial assistance may be provided at any time in terms of this authority after the expiry of two years from the adoption of this Special Resolution Number 2.

Reason and effect of Special Resolution Number 2

In the normal 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.

9. SPECIAL RESOLUTION NUMBER 3: GENERAL AUTHORITY TO REPURCHASE UP TO 1 582 285 (5%) OF THE SHARES IN ISSUE

That Hudaco or any of its subsidiaries be and is hereby authorised, by way of a general approval, to acquire up to 1 582 285 (5%) of Hudaco ordinary shares ("ordinary shares") in terms of section 48 of the Companies Act and the JSE Listings Requirements, being that:

- any such acquisition of ordinary shares shall be effected through the order book operated by the JSE trading system and done without any prior understanding or arrangement between Hudaco and the counterparty;
- this general authority shall be valid until Hudaco's next AGM, provided that it shall not extend beyond 15 months from the date of passing of this special resolution;
- an announcement will be published as soon as Hudaco or any of its subsidiaries have acquired ordinary shares constituting, on a cumulative basis, 3% of the number of ordinary shares in issue and for each 3% in aggregate of the initial number acquired thereafter, in compliance with Rule 11.27 of the JSE Listings Requirements;
- acquisitions of ordinary shares in aggregate in any one financial year may not exceed 5% of Hudaco's ordinary issued share capital as at the date of passing of this Special Resolution Number 3;
- ordinary shares may not be acquired at a price greater than 10% above the weighted average of the market value at which such ordinary shares are traded on the JSE as determined over the five business days immediately preceding the date of repurchase of such ordinary shares by Hudaco or any of its subsidiaries;
- Hudaco has been given authority by its MOI;
- at any point in time, Hudaco may only appoint one agent to effect any repurchase on its behalf;
- prior to entering the market to repurchase the company's shares, a company resolution authorising the repurchase will have been passed in accordance with the requirements of section 46 of the Companies Act, stating that the board has applied the solvency and liquidity test as set out in section 4 of the Companies Act, and has reasonably concluded that the company will satisfy the solvency and liquidity test immediately after the repurchase; and
- Hudaco and/or its subsidiaries may not repurchase any ordinary shares during a prohibited period as defined by the JSE Listings Requirements unless a repurchase programme is in place, where the dates and quantities of ordinary shares to be traded during the prohibited period are fixed and full details of the programme have been submitted to the JSE in writing detailed prior to the commencement of the prohibited period.

Before entering the market to effect the general repurchase, the directors, having considered the effects of the repurchase of the maximum number of ordinary shares in terms of the aforegoing general authority, will ensure that for a period of 12 months after the date of this notice of AGM:

- Hudaco and the group will be able, in the ordinary course of business, to pay its debts;
- the consolidated assets of Hudaco and the group, fairly valued in accordance with statements of International Financial Reporting Standards, will exceed the consolidated liabilities of Hudaco and the group; and
- Hudaco and the group's ordinary share capital, reserves and working capital will be adequate for ordinary business purposes.

The following additional information, which appears in the integrated report as published on Hudaco's website, is provided in terms of the JSE Listings Requirements for purposes of the general authority to repurchase shares;

- major shareholders – page 115
- directors' interests in securities – pages 107 to 109; and
- share capital of the company – note 17 on page 96.

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.

10. ORDINARY RESOLUTION NUMBER 5 – GENERAL AUTHORITY TO DIRECTORS TO ALLOT AND ISSUE AUTHORISED BUT UNISSUED ORDINARY SHARES UP TO 1 582 285 (5%) OF THE SHARES IN ISSUE

That, as required by and subject to the MOI and the requirements of the Companies Act and the JSE Listings Requirements, from time to time, the directors be and they are, as a general authority and approval, authorised, as they in their discretion think fit, to allot and issue unissued ordinary shares of the company, subject to the following:

- the authority shall be valid until the date of the next AGM of the company, provided that it shall not extend beyond 15 months from the date of this AGM; and
- issues in terms of the authority will not, in any financial year, in aggregate, exceed 5% of the number of ordinary shares in the company's issued share capital as at the date of the AGM.

As explanation for the passing of ordinary resolution number 5, please note that clause 10.3 of the company's MOI, read with the JSE Listings Requirements, provides that shareholders may authorise directors to allot and issue the authorised but unissued shares, as the directors in their discretion think fit.

The authority in ordinary resolution 5 will be subject to the Companies Act and the JSE Listings Requirements. The aggregate number of ordinary shares able to be allotted and issued in terms of this authority is limited as set out in the resolutions.

11. ORDINARY RESOLUTION NUMBER 6 – SIGNATURE OF DOCUMENTS

That any one director or the group secretary of Hudaco be and is hereby authorised to do all such things and sign all documents and take all such action as they consider necessary to implement the resolutions set out in the notice convening the AGM at which this ordinary resolution will be considered.

NOTICE OF ANNUAL GENERAL MEETING
(CONTINUED)

Voting and proxies

To record the votes more effectively and give effect to the intentions of shareholders, voting on all resolutions will be conducted by way of a poll. Any shareholder entitled to attend and vote at the AGM may appoint a proxy to attend, speak and vote in his/her stead. A proxy need not be a shareholder of the company. For the convenience of registered members of the company, a form of proxy is enclosed herewith.

The attached form of proxy is to be completed only by those shareholders who are:

- holding the company's ordinary shares in certificated form, or
- recorded on the electronic sub-register in "own name" dematerialised form.

Shareholders who have dematerialised their ordinary shares through a Central Securities Depositary Participant (CSDP) or broker and wish to attend the AGM must instruct their CSDP or broker to provide them with their voting instruction in terms of the relevant custody agreement/ mandate entered into between them and the CSDP or broker.

Completed forms of proxy should be returned to the transfer secretaries, Computershare Investor Services Proprietary Limited, Ground Floor, 70 Marshall Street, Johannesburg, 2001 (PO Box 61051, Marshalltown, 2107), so as to reach them by no later than 11:00 on Monday, 7 March 2016.

By order of the board

R Wolmarans
Group secretary

28 January 2016

Transfer secretaries

Computershare Investor Services Proprietary Limited
70 Marshall Street
Johannesburg, 2001
(PO Box 61051, Marshalltown, 2107)

FORM OF PROXY

To: **Computershare Investor Services Proprietary Limited**
70 Marshall Street, Johannesburg, 2001
(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 31st annual general meeting – for use by certificated Hudaco ordinary shareholders and dematerialised shareholders with own name registration only (see note 1)

To be received by no later than 11:00 on Monday, 7 March 2016

For use by Hudaco shareholders at the annual general meeting of Hudaco to be held on Wednesday, 9 March 2016 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

2 ______________________________ or failing him

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		
Resolution	**For**	**Against**	**Abstain**
Ordinary Resolution Number 1: To re-elect directors retiring by rotation			
1.1 SJ Connelly			
1.2 GR Dunford			
1.3 SG Morris			
Ordinary Resolution Number 2: To elect the director appointed since previous AGM			
2.1 N Mandindi			
Ordinary Resolution Number 3: To approve the re-appointment of external auditors			
Ordinary Resolution Number 4: Appointment of the members of the audit and risk management committee:			
4.1 SG Morris			
4.2 N Mandindi			
4.3 D Naidoo			
Special Resolution Number 1: Approval of non-executive directors' remuneration			
Non-binding Resolution Number 1: Endorsement of Hudaco's remuneration policy			
Special Resolution Number 2: Authorising the provision of financial assistance to subsidiaries			
Special Resolution Number 3: General authority to repurchase shares – up to 1 582 285 (5%) of its shares			
Ordinary Resolution Number 5: General authority to directors to allot and issue authorised but unissued ordinary shares – up to 1 582 285 (5%) shares in issue			
Ordinary Resolution Number 6: Signature of documents			

Signed at ______________________________ on ______________________________ 2016

Signature(s) ______________________________

Assisted by me (where applicable) ______________________________

PROXY NOTES

1. Shareholders who have dematerialised their shares through a Central Securities Depository Participant (CSDP) or broker must either inform their CSDP or broker of their intention to attend the annual general meeting to provide them with the necessary authority to attend or provide the CSDP or broker with their voting instruction in terms of the custody agreement entered into between the beneficial owner and the CSDP or broker.
2. A shareholder may insert the name of a proxy or the names of two alternative proxies of the shareholder's choice in the space provided. The person whose name appears first on the form of proxy and who is present at the annual general meeting will be entitled to act as proxy to the exclusion of those whose names follow.
3. A shareholder's instructions to the proxy must be indicated by "X" in the appropriate box provided on the proxy form. Failure to comply with the above will be deemed to authorise a proxy to vote or abstain from voting at the annual general meeting as he/she deems fit in respect of all the members' votes exercisable at the meeting.
4. The completion and lodging of this form of proxy will not preclude the shareholder from attending the annual general meeting and speaking and voting thereat to the exclusion of any proxy appointed in terms hereof should the shareholder wish to do so (see note 1 above).
5. The chairman of the annual general meeting may reject or accept any proxy form that is completed and/or received, other than in accordance with these notes. Proxy forms received by way of facsimile will be acceptable.
6. Each shareholder is entitled to appoint one or more proxies (none of whom needs to be a shareholder of Hudaco) to attend, speak and vote in place of the shareholder at the annual general meeting.
7. Any alteration to this form of proxy, other than a deletion of alternatives, must be initialled by the signatories.
8. Documentary evidence establishing the authority of the person signing this form of proxy in a representative capacity must be attached to this form of proxy unless previously recorded by Hudaco.
9. Where there are joint shareholders:
   (a) Any one shareholder may sign the form of proxy;
   (b) The vote of the senior (for that purpose seniority will be determined by the order in which the names of shareholders appear in Hudaco's register of shareholders) who tenders a vote (whether in person or by proxy) will be accepted to the exclusion of the vote/s of the other joint shareholder/s.
10. Forms of proxy should be lodged with or posted to the transfer secretaries, Computershare Investor Services Proprietary Limited, 70 Marshall Street, Johannesburg, 2001 (PO Box 61051, Marshalltown, 2107), so as to reach them by no later than Monday, 7 March 2016 at 11:00.

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

ince

COMPANY 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 Wolmarans
Contact details as above

TRANSFER SECRETARIES

Computershare Investor Services Proprietary Limited
70 Marshall Street
Johannesburg, 2001
(PO Box 61051, Marshalltown, 2107)
Tel + 27 11 370 5000

AUDITORS

Grant Thornton
Wanderers Office Park
52 Corlett Drive
Illovo
(Private Bag X28, Benmore, 2010)

BANKERS

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

SPONSOR

Nedbank Corporate and Investment Banking
135 Rivonia Road, Sandton, 2196
(PO Box 1144, Johannesburg, 2000)

SHAREHOLDERS' DIARY

Financial year end	30 November
Annual general meeting	9 March 2016
Reports and financial statements	
Preliminary report and final dividend announcement	29 January 2016
Abridged financial statements and notice of annual general meeting (mailed to shareholders)	first week in February
Interim report and interim dividend announcement	1 July 2016
Dividend payment details	
Payment of final dividend	7 March 2016
Payment of interim dividend	third week in August

GROUP DIRECTORY

DIVISION	BUSINESS NAME	PRINCIPAL ACTIVITIES	ADDRESS
CONSUMER-RELATED PRODUCTS			
Power tools	Rutherford	Distributor of Makita power tools, Mercury marine engines and survey instrumentation	77 Smits Street Industries West Germiston
Security equipment	Elvey Security Technologies	Distributor of electronic security equipment, including intruder detection, access control, CCTV, fire detection, electric fencing and specialised products, as well as related consumables	27 Greenstone Place Greenstone Hill Edenvale
	Pentagon	Distributor of integrated security and life safety solutions, including CCTV, access control, fire detection, public address and perimeter detection products	27 Greenstone Place Greenstone Hill Edenvale
Communication equipment	Global Communications	Distributor of professional mobile radio communication equipment and radio systems integrator	Highway Business Park Park Street Rooihuiskraal Centurion
Automotive	Abes Technoseal	Distributor of automotive clutch kits and ignition leads, rotary oil and hydraulic seals	10 Wankel Street Jet Park
	Partquip	Importer and distributor of automotive spares and accessories	61 Trump Street West Selby Johannesburg
Batteries	Deltec Energy Solutions	Distributor of maintenance free batteries and provider of custom designed energy solutions	6 Liebenberg Street Alrode Alberton
	Specialised Battery Systems	Importer and distributor of stand-by and solar batteries	23 Golden Drive Morehill Benoni
ENGINEERING CONSUMABLES			
Bearings	Bearings International	Distributor of bearings, chains, seals, electric motors, transmission and allied products	Lancaster Commercial Park (off Atlas Rd) Cnr Merlin Rose & Lancaster Ivy Drives Parkhaven Ext 5, Boksburg
Diesel engines and spares	Deutz Dieselpower	Distributor of Deutz diesel engines and Deutz spare parts and the provision of service support	5 Tunney Road Elandsfontein
Power transmission	Ambro Sales	Distributor of engineering steels, solid, round, square, hexagonal and hollow bar steel	Corner Lamp and Snapper Roads Wadeville
	Astore Africa	Distributor of specialised thermoplastic pipes, fittings and Keymak PVC hose	46 Paul Smit Street Anderbolt Boksburg
	Bauer Geared Motors	Distributor of geared motors, hellical gearboxes, frequency inverters and electric motors	72 Acacia Road Cnr Barbara Road Primrose, Germiston
	Belting Supply Services	Distributor of conveyor belting, industrial hose, fluid sealing and process control products	15 Fortune Street City Deep
	Berntel	Importer and distributor of pneumatic and process components	Unit 3 25 Fransen Street Chamdor Krugersdorp

CONTACT		EXECUTIVES			
Tel	011 878 2600	Martin Peterson	Chief executive	Neil Black	Divisional director
Fax	011 873 1689	Arusha Asari	Financial director	Shaun van Rooyen	Divisional director
Email	info@rutherford.co.za	Carol Caunter	Divisional director		
Tel	011 401 6700	Jack Edery	Chief executive	Ingo Mutinelli	Sales director
Fax	011 401 6753	Dave Waywell	Key accounts director	Zane Greeff	Technical director
Email	sales@elvey.co.za	Gary Lowe	Commercial director		
Tel	011 401 6700	Jack Edery	Chief executive	Matthew Short	Divisional director
Fax	011 401 6753	Brendon Hall	Managing director	Tim Russel	Divisional director
Email	info@pentagon.co.za	Elmar Snyman	Divisional director	Gary Lowe	Commercial director
Tel	087 310 0400	Sean Mervitz	Managing director	Errol Baker	Non-executive director
Fax	011 661 0387	Barbara Smith	Financial director		
Email	info@globalcomms.co.za				
Tel	011 397 4070	Danie Venter	Managing director	Juan Radley	Financial manager
Fax	011 397 4326	Jayne Kyte	Logistics director		
Email	info@abes.co.za				
Tel	011 634 7600	Carl Rogers	Managing director	Chris de Kock	Financial director
Fax	011 493 3131	Charmaine Anthony	Logistics director	Lavern Jacobs	Divisional director
Email	linda@partquip.co.za	Malene Rizzo	Divisional director	Mic van Zyl	Divisional director
Tel	011 864 7930	Colin Eddey	Managing director	Marshall Moodley	Financial manager
Fax	011 908 6154	Dave Roby	Technical director		
Email	sales@deltecpower.co.za				
Tel	011 425 3447	Tom Orren	Managing director	Bradley Orren	Commercial director
Fax	011 425 4433	Natasha Jasmin	Financial manager	Sheldon Orren	Sales director
Email	sheldon@special-battery.co.za				
Tel	011 899 0000	Burtie Roberts	Chief executive	Danie Louw	Aftermarket director
Fax	011 899 6586	Niniza Sithole	Financial director		
Email	info@bearings.co.za				
Tel	011 923 0600	Maurice Pringle	Managing director	Avinash Ramnarain	Financial director
Fax	011 923 0611	Rowan Michelson	Marketing director	Steven Moss	Sales director
Email	info@deutz.co.za				
Tel	011 824 4242	Lynette Anderson	Chief executive	David da Silva	Financial manager
Fax	011 824 4864				
Email	david@ambro.co.za				
Tel	011 892 1714	Cindy Dixon	Managing director	Andrew Smith	Financial director
Fax	011 892 2781				
Email	info@astore.co.za				
Tel	011 828 9715	Burtie Roberts	Chief executive	Tanya Blom	Financial manager
Fax	011 828 0116	Knocks Ngema	Sales director		
Email	home@gbauer.co.za				
Tel	011 610 5600	Piet Swanepoel	Managing director	Stephan Boshoff	Technical director
Fax	011 610 5700	Mark Knight	Financial director	Tanja Henderson	Procurement director
Email	info@belting.co.za	Tom Harrison	HR director	Mark Vorster	Sales director
Tel	011 762 1840	Mark Tarboton	Chief executive	Neil Champion	General manager
Fax	011 762 2185				
Email	info@berntel.co.za				

GROUP DIRECTORY (CONTINUED)

DIVISION	BUSINESS NAME	PRINCIPAL ACTIVITIES	ADDRESS
	Bosworth	Manufacturer of conveyor drive pulleys, forgings and rollings	Corner Vereeniging and Juyn Roads Alrode
	Dosco Precision Hydraulics	Supply of hydraulic pumps and motors to the mining, industrial, mobile, marine and forestry industries	No 6 Impangela Road Sebenza Ext 6 Ekurhuleni
	Ernest Lowe	Manufacturer of hydraulic and pneumatic equipment	6 Skew Road Boksburg North
	Filter and Hose Solutions	Supplier of filtration solutions, customised exhaust systems, kits and accessories	160 Francis Road Anderbolt Boksburg North
	Gear Pump Manufacturing	Manufacture and assembly of hydraulic gear pumps	15 Moody Avenue Epping 1 Cape Town
	Hydraulic Engineering Repair Services	Manufacturer and repairer of hydraulic cylinders and repairer of drivetrain components	69 Miller Road Germiston Industrial Germiston
	Joseph Grieveson	Manufacturer of ferrous and non-ferrous castings	332 Aberdare Drive Phoenix Industrial Park Phoenix, Durban
	Powermite	Distributor of electric cabling, plugs, sockets, electric feeder systems and crane materials	2754 Albertina Sisulu Road (previously: 92 Main Reef Road) Technikon Roodepoort
	Proof Engineering	Manufacturer and distributor of mining connectors and lighting systems	368 Sifon Street Robertville Roodepoort
	Sanderson Special Steels	Distributor of special steels and heat treatment to the tool making and general engineering industries	18 Junction Street Parow Industria Cape Town
	Three-D Agencies	Distributor of electrical cable accessories	Unit B1, Route 24 50 Herman Street Meadowdale
	Varispeed	Distributor of controllers, monitors and regulators of the speed of standard AC motors	4 Clovelly Business Park 342 Old Pretoria Main Road, Midrand
GROUP HEAD OFFICE	Hudaco Industries Hudaco Trading		Building 9 Greenstone Hill Office Park Emerald Boulevard Greenstone Hill Edenvale

CONTACT		EXECUTIVES			
Tel	011 864 1643	Mark Tarboton	Chief executive	Anton Dedekind	General manager
Fax	011 908 5728	Gary Howell	Managing director		
Email	pulleys@bosworth.co.za				
Tel	011 452 5843	Thomas Dunford	Chief executive	Trevor Dyker	Procurement director
Fax	011 609 7955	Deon Krieger	Managing director	Elma Lottering	Financial director
Email	dosco@dosco.co.za				
Tel	011 898 6600	Mark Tarboton	Chief executive	Eliah Mutaviri	Financial manager
Fax	011 918 3974	Marie Kirsten	Operations director		
Email	corporate@elco.co.za				
Tel	0861 347 789	Barry Fieldgate	Chief executive	Philip Venter	Operations director
Fax	011 894 5832	Reena Magan	Financial director		
Email	info@fhs.za.net				
Tel	021 531 9330	Thomas Dunford	Chief executive	Valdor Dudley	Financial director
Fax	021 531 7096	Gerry Coward	Managing director		
Email	sales@gearpumps.co.za				
Tel	011 825 3690	Eric Page	Managing Director	Nic Pitsiladis	General Manager
Fax	011 825 6152				
Email	sales@hers.co.za				
Tel	031 507 3640	Thomas Dunford	Chief executive	Vishnu Partab	Operations director
Fax	031 500 2587	Megan Slater	Financial manager		
Email	sales@josgrieveson.co.za				
Tel	011 271 0000	Mike Allnutt	Chief executive	Widor Grobbelaar	Financial director
Fax	011 271 0265	Rolf Lung	Managing director	Donovan Marks	Sales director
Email	info@powermite.co.za	Annelie du Toit	Financial manager		
Tel	011 824 1146	Mike Allnutt	Chief executive	Widor Grobbelaar	Financial director
Fax	011 824 1237	Andrew Mowat	Managing director	Wendy Turner	Financial manager
Email	sales@proofholdings.co.za				
Tel	021 951 5311	Lynette Anderson	Chief executive	Tim Groenewald	Managing director
Fax	021 951 5316				
Email	info@sanderson.co.za				
Tel	011 392 3804	Mike Allnutt	Chief executive	Mark Jenkins	Sales director
Fax	011 392 3812	Ian Downard	Managing director	Vanessa Naidoo	Financial manager
Email	sales@three-d.co.za	Widor Grobbelaar	Financial director		
Tel	011 312 5252	Mike Allnutt	Chief executive	Erika van de Velde	Financial director
Fax	011 312 5262	Rolf Lung	Managing director	Ralph Real	General manager
Email	drives@varispeed.co.za				
Tel	011 657 5000	Graham Dunford	Group chief executive	Cassie Lamprecht	Group accountant
Fax	086 682 6779	Clifford Amoils	Group financial director	Rika Wessels-Bouwer	Group treasurer
Email	info@hudaco.co.za	Reana Wolmarans	Group secretary	Gary Walters	Acquisitions manager
Website	www.hudaco.co.za			Jonny Masinga	Transformation and human resources executive

ince