Hudaco

Integrated Report

For the year ended 30 November 2011

Profile

Hudaco Industries is a South African group specialising in the importation and distribution of high-quality branded industrial products in the southern African region. Hudaco businesses serve markets that fall into two primary categories. The bearings, power transmission and diesel engine businesses supply engineering consumables mainly to mining and manufacturing customers whilst the security, power tool and automotive aftermarket businesses supply products into markets reliant on consumer spending.

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 Deutz Dieselpower, in which Deutz AG has a 30% share, all Hudaco businesses are 15% owned directly by BEE shareholders.

Contents

Highlights

Headline earnings up **29%**

Heps up **28%**

Operating profit up **42%**

Dividends up **26%**

Turnover up **29%**

Eps up **38%**

Acquisitions contribute 17% to heps growth

Organic growth – turnover 9%, operating profit 12%

Exports up 48%

Cash balance **R169m**

Bearings International **moved** into **new distribution centre**

Makita power tools **listed** in **Makro** stores

Building leadership team for **succession**

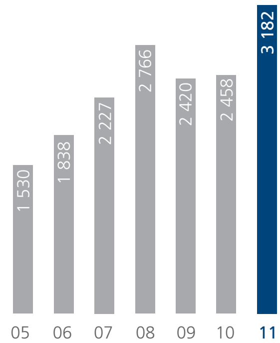
Rated 20th over 10 years in **Sunday Times Top 100** companies

Won IAS reporting award for companies with market cap **under R5bn**

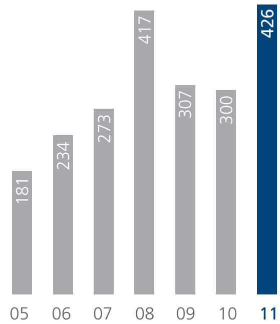
Results in brief

30 November	2011	2010	% change
Turnover (Rm)	3 182	2 458	29
Operating profit (Rm)	426	300	42
Headline earnings (Rm)	324	252	29
Attributable earnings (Rm)	325	234	39
Headline earnings per share (cents)	1 024	800	28
Dividends per share (cents)	440	350	26

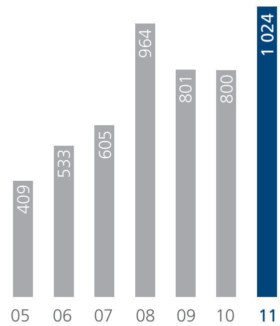
Turnover (Rm)



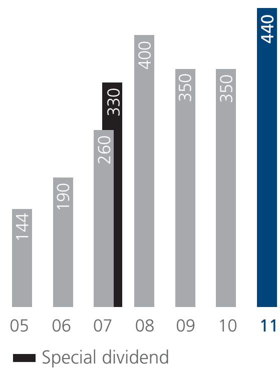
Operating profit (Rm)



Headline earnings per share (cents)



Dividends per share (cents)



Group at a glance

Engineering consumables

Principal activities	Businesses	Key drivers
Bearings: The distribution of bearings, chain, seals, electric motors, transmission products and alternators. **Diesel engines and spares:** The distribution of Deutz diesel engines and Deutz spares and the provision of service support. **Power transmission:** The distribution of geared motors, belting, hydraulics, pneumatics, air and oil filters, industrial hose, conveyor drive pulleys, variable speed drives, special solid and hollow round steel, specialised thermoplastic pipes and fittings, electrical cabling, plugs and related products to the manufacturing, mining and agricultural aftermarkets.	• **Bearings International** has over 40 branches across South Africa. The main bearing brand distributed is FAG, which is of German origin. • **Deutz Dieselpower** represents Deutz AG – one of the world's leading independent manufacturers of diesel engines. • **Power transmission:** Ambro Sales, Astore Africa, Bauer Geared Motors, Belting Supply Services, Bosworth, Ernest Lowe, Filter and Hose Solutions, Midrand Special Steels, Powermite and Varispeed.	**GDP growth** **Mining activity** **Mining investment** **Mining mechanisation** **Manufacturing activity** **Electricity usage management**

Consumer-related products

		Key drivers
Automotive products: The distribution of clutch kits, automotive ignition leads and oil and hydraulic seals to the automotive and industrial aftermarket. **Security equipment:** The distribution of intruder detection, access control and related CCTV equipment, including design and integration of systems, fibre-optics and video over IP installations. **Communication equipment:** The distribution of integrated telecommunication infrastructure and professional mobile radio communication products. **Power tools:** The distribution of power tools and marine engines.	• **Abes Technoseal** distributes seals and Valeo clutch kits. • **Elvey Security Technologies and Pentagon**, the distributor of DSC and Optex security equipment. • **Global Communications**, the distributor of Kenwood and JVC communication equipment. • **Rutherford**, the distributor of Makita power tools.	**Consumer spending** **Building activity** **Employment levels** **Vehicle sales** **Analogue to digital migration**

Group

	Key drivers
	Exchange rates **Acquisitions**

24 For more information on engineering consumables, see page 24: Investing in Hudaco

R million	2011	2010
Sales	2 187	1 750
– Ongoing	1 852	1 685
– Acquired 2010 and 2011	335	65
Operating profit	274	206
– Ongoing	210	192
– Acquired 2010 and 2011	64	14
Average NOA*	1 093	728
Number of employees	1 843	1 853

*Net operating assets

Bearing International – keeping the wheels of industry turning

27 For more information on consumer-related products, see page 27: Investing in Hudaco

R million	2011	2010
Sales	1 006	716
– Ongoing	760	716
– Acquired 2010 and 2011	246	
Operating profit	163	117
– Ongoing	121	117
– Acquired 2010 and 2011	42	
Average NOA*	366	182
Number of employees	641	540

*Net operating assets

Elvey Security Technologies – intruder detection protecting you and your assets

R million	2011	2010
Sales	3 182	2 458
– Ongoing	2 601	2 393
– Acquired 2010 and 2011	581	65
Operating profit	426	300
– Ongoing	320	286
– Acquired 2010 and 2011	106	14
Average NOA*	1 469	948
Number of employees	2 505	2 415

*Net operating assets

Powermite – electrical power solutions

Directorate

Non-executive directors

Royden Vice (64)

BCom CA (SA)

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

Royden retired in 2011 as CEO of Waco International, which he joined in 2002. He is a non-executive director of Murray & Roberts Holdings and a governor of Rhodes University.

Royden was CEO of Industrial and Special Products at the UK-based BOC group. He was also chairman of African Oxygen Limited (Afrox) and Afrox Healthcare.

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

Dolly Mokgatle (55)

BProc LLB H.Dip in Tax Law

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

Dolly is an executive director of Peotona Group. She serves as chairman of the Board of Electricity Distribution Industry Holdings and as deputy chairman of the National Energy Regulator of South Africa. She is also a non-executive director of the boards of several listed and unlisted companies, including Sasfin Holdings, Kumba Iron Ore, Zurich Insurance Company, Lafarge Mining and Lafarge Industries. Other positions include associate governor of Michaelhouse (KZN) and University of Witwatersrand Foundation.

Dolly was the CEO of Spoornet from 2003 to 2005. Prior to that she was the managing director of the Transmission Group in Eskom.

Dolly joined the board in March 2011.

Stuart Morris (65)

BCom CA (SA)

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

Stuart is a non-executive director of Group Five. Zurich Insurance (RSA), City Lodge, Rolex Watch (SA) and Mwana Africa plc, 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 July 1999 until he retired in 2004.

Stuart joined the board in 2009.

Dhanasagree "Daisy" Naidoo (39)

Masters in Accounting (Taxation), CA (SA)

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

Daisy serves as an independent non-executive director on the boards of Futuregrowth Asset Management, Marriott Unit Trust Management Company, Old Mutual Unit Trust Managers, STRATE, and Omnia Holdings. She is also a member of the audit committee of the Council for Higher Education. She served as the national exco member of the Association of Black Securities and Investment Professionals, heading up Strategic Alliances until September 2011, when her term ended.

She spent 10 years with Sanlam Capital Markets, including as head of the Debt Structuring Unit.

Daisy joined the board in March 2011.




Executive directors

Stephen Connelly (60)

ACMA

Chief executive

Stephen immigrated to South Africa in 1976. In 1982 he was a founding partner of Valard Limited where he served as financial director until he was appointed managing director in 1987. He was appointed group chief executive of Hudaco in 1992 shortly after its acquisition of the Valard group.

Clifford Amoils (50)

BCom BAcc (cum laude)
CA (SA)

Financial director

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

He joined the board in 2009.

Graham Dunford (47)

Dip: Mechanical Engineering

CEO: Bearings and power transmission

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 executive director in July 2010 after serving as an alternate director since January 2009.

Executive committee

Stephen Connelly (60)
Chief executive
29 years' service

Clifford Amoils (50)
Financial director
3 years' service

Bob Cameron-Smith (63)
CEO: Rutherford
38 years' service

Graham Dunford (47)
CEO: Bearings and power transmission
23 years' service

Ossie Carstens (46)
CEO: Deutz Dieselpower and non-executive chairman of Belting Supply Services
3 years' service

Jack Edery (60)
CEO: Elvey Security Technologies
15 years' service

Jonny Masinga (34)
Group executive: Transformation and human resources
New appointment

Gilbert da Silva (64)
CEO: Bearings International
41 years' service

Reana Wolmarans (45)
Group secretary
3 years' service

Service is with Hudaco and businesses acquired

Seven year review

R million	2011	2010	2009	2008	2007	2006	2005
Group statement of income							
Turnover	**3 182**	2 458	2 420	2 766	2 227	1 838	1 530
Operating profit	**426**	300	307	417	273	234	181
Net finance costs less dividends received	**42**	17	28	40	(5)	(7)	(4)
Profit before taxation	**384**	283	279	377	278	241	185
Taxation	**46**	26	24	57	83	76	59
Profit after taxation	**338**	257	255	320	195	165	126
Non-controlling interest	**13**	5	6	23	13	6	5
Headline earnings	**325**	252	249	297	182	159	121
Capital items	**1**	18	6	(10)	(1)	9	(1)
Attributable earnings	**324**	234	243	307	183	150	122
Shares in issue (000) (weighted average)	**31 617**	31 466	31 023	30 836	30 178	29 870	29 592
Earnings per share (cents)							
– headline	**1 024**	800	801	964	605	533	409
– basic	**1 026**	745	784	995	606	502	413
Dividends per share (cents)	**440**	350	350	400	260	190	144
Special dividend per share (cents)					330		
Group statement of financial position							
Property, plant and equipment	**182**	131	91	92	74	67	62
Goodwill	**516**	331	117	131	77	57	64
Intangible assets	**49**	34	18	25			
Deferred taxation	**11**	23	11	(5)	1	1	2
Inventories	**813**	663	597	780	544	452	375
Trade and other receivables	**616**	423	356	507	399	355	279
Trade and other payables	**(586)**	(420)	(326)	(488)	(435)	(382)	(296)
Taxation	**(8)**	(6)	(10)	(33)	(30)	(24)	(13)
Net operating assets	**1 593**	1 179	854	1 009	630	526	473
Investment in preference shares	**2 181**	2 181	2 181	2 181	2 181		
Net cash	**166**	262	335	69	317	238	187
Employment of capital	**3 940**	3 622	3 370	3 259	3 128	764	660
Interest of shareholders of the group	**1 494**	1 287	1 150	1 015	807	728	612
Non-controlling interest	**31**	27	34	40	29	22	24
Equity	**1 525**	1 314	1 184	1 055	836	750	636
Shareholders for special dividend					101		
Subordinated debenture	**2 181**	2 181	2 181	2 181	2 181		
Amounts due to vendors on acquisitions	**234**	127	5	23	10	14	24
Total capital employed	**3 940**	3 622	3 370	3 259	3 128	764	660
Group statement of cash flows							
Cash generated from trading	**458**	327	333	450	334	248	195
(Increase)decrease in working capital	**(129)**	12	166	(235)	(71)	(62)	(62)
Cash generated from operations	**329**	339	499	215	263	186	133
Finance costs	**(234)**	(234)	(235)	(249)	(81)		
Taxation paid	**(46)**	(49)	(63)	(56)	(81)	(65)	(63)
Net cash from operating activities	**49**	56	201	(90)	101	121	70
Investment in new operations	**(164)**	(184)	(7)	(140)	(35)	(11)	(47)
Investment in property, plant and equipment	**(64)**	(50)	(17)	(20)	(17)	(16)	(9)
Investment in preference shares					(2 181)		
Discontinuation of business			7				
Dividends and interest received	**205**	218	203	212	83	8	5
Net cash from investing activities	**(23)**	(16)	186	52	(2 150)	(19)	(51)
Proceeds from issue of shares	**2**	7	8	4	14	3	3
Increase in finance leases	**3**						
Subordinated debenture issued					2 181		
Dividends paid	**(124)**	(120)	(129)	(214)	(67)	(54)	(42)
Net cash from financing activities	**(119)**	(113)	(121)	(210)	2 128	(51)	(39)
Net (decrease)increase in cash and cash equivalents	**(93)**	(73)	266	(248)	79	51	(20)

Discussion with the Chairman and Chief executive

Royden Vice Stephen Connelly

How did Hudaco perform in 2011?

Hudaco has delivered a good set of results this year. Demand for our product offering was reasonable throughout the year, but picked up noticeably in the second half of 2011. Not only has the group taken advantage of organic growth opportunities, but the renewed focus on acquisitions has also made a material contribution to profits this year. Rand weakness from September 2011 had little impact on the 2011 results but is expected to have a major positive impact on next year's.

The engineering consumables segment continues to be the core driver of profits for the Hudaco group, delivering 63% of operating profit this year – up 33% on last year on sales of R2,2 billion. Demand from the two key markets for this segment, South African-based mining and manufacturing, was steady this year. However, demand for our products from mining customers in neighbouring countries was noticeably higher. The consumer-related products segment also performed well, increasing operating profit by 39% from sales of R1 billion. This segment experienced strong demand for power tools and digital radio communication equipment. 24

All acquisitions made over the past two years are performing to or ahead of plan.

Is the Hudaco business model still valid?

We think it is even more appropriate in the current environment. Over the past 20 years South Africa has not trained enough people with technical skills to replace those lost to the economy through retirement or emigration. For this reason, Hudaco's technical offering is more in demand by our customers than ever before. Hudaco is also in a fortunate position of being able to maintain its technical skills base quickly and easily through training offered internationally by our suppliers and our own in-house training programmes. 13,39

Discussion with the
Chairman and Chief executive

Do you see a sustainable flow of acquisition opportunities over the medium term?

Yes, we do. We believe that as the South African regulatory environment tightens, and the cost of compliance rises, there will continue to be a stream of privately-owned businesses offered for sale. We therefore expect to continue to find opportunities to acquire attractive businesses that will contribute to earnings growth at relatively low risk.

Hudaco is a strong cash generator, and this allows the company to pursue an aggressive growth strategy primarily based on acquisitions. Acquiring distribution rights for a competing brand is not feasible where we already represent a major world brand. Therefore, we look to acquire businesses distributing products not already in our portfolio. Importantly, these products should have a value-add component to them. Major world manufacturers are invariably already represented locally and changing distributors usually only takes place when the local owners of the distribution rights wish to disinvest. Consequently, opportunities to acquire new distribution rights present themselves only rarely, which means that our acquisition strategy has to be opportunistic in nature. We do, however, maintain a permanent wish list and have a list of targets currently under consideration.

Can your global suppliers weather the debt crisis in Europe and the USA?

This is difficult to answer. We don't know how the crisis in Europe (and the one to come in the USA) will play out. If it results in a very severe recession, some of our suppliers may not survive. However, their products will probably reappear quite quickly under new ownership and we would imagine that the new owners would want to keep existing distribution channels for those products very much alive.

What were your strategic objectives for 2011 and how did you perform against them?

The group had three key strategic objectives: more aggressive action on acquisitions; expansion of sales into Africa; and increase of black representation in senior management.

We added three new businesses this year, as well as one in the last quarter of 2010. 25% of our operating profit in 2011 came from those businesses, which we consider successful. The total cost of the four businesses is estimated at R587 million and is dependent on earn-out performance. We continue to seek acquisitions that fit with our business model. The pipeline remains active.

Sales into Africa have clearly increased and several of our businesses have reported strong growth, albeit off a low base. Good progress has been made in Mozambique, Zambia and southern Congo. It is always difficult to tell how much of

Key strategic objectives

More aggressive action on acquisitions	✔
Expansion of sales into Africa	✔
Increase of black representation in senior management	✔

our product goes into Africa, because our customer is often based in South Africa but operating elsewhere. Our own exports have increased from 5% to 7% of our turnover.

We have made meaningful progress on increasing black representation in senior management. Jonny Masinga was appointed as the group transformation and human resources executive during the year, so we now have two black Exco members. We also now have two black people heading business units, up from one last year, and have appointed black financial directors at two of our larger businesses, both of whom are scheduled to start in the first quarter of 2012.

We will continue to focus on these overarching objectives well beyond 2012.

Do you have any concerns for 2012 and beyond?

We are worried about the turmoil in the Eurozone and the possibility that it may impact negatively on world economic growth and, in particular, demand for South Africa's mineral exports. Western governments (including South Africa) have been spending more than they collect in taxes for many years now. The consequence of this is currently seen in the Eurozone and will soon be felt in the USA. Eventually, if the lesson is not learned, we will see South Africa fall into the same trap.

South Africa has particular issues that are holding back economic growth. Insufficient infrastructure (e.g. electricity, rail, ports, etc.), an increasingly corrupt public service and the education crisis are all within government's domain. A lack of clarity on future policy (e.g. the nationalisation debate) also inhibits private sector investment.

What is the growth outlook for 2012 and beyond?

Trading conditions for the group have improved over the past year. Moderate growth in demand this year from South African mining and manufacturing customers was supplemented by strong growth from mining customers in neighbouring countries, albeit off a much lower base. Rand weakness, such as occurred in the last quarter of 2011, has traditionally led to increased activity by mines and local manufacturers and this bodes well particularly for Hudaco's engineering consumables segment. Demand for power tools and digital communication equipment, products in our consumer-related products segment, is expected to remain strong. The strong balance sheet also gives plenty of ammunition for Hudaco to continue to pursue its successful acquisition strategy.

26,29

The Hudaco board is confident that the group will continue to grow earnings in the years ahead.

Royden Vice
Chairman

Stephen Connelly
Chief executive

Welcome to the world
of Hudaco

Where we have come from

1890s

In 1891, just five years after the discovery of gold on the Witwatersrand, J Hubert Davies started an equipment supply business in Johannesburg. By the turn of the century, the business was a major player in the distribution of industrial products and, in 1917, it was converted into a private company, allowing senior managers to become shareholders and directors.

1930s

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. This United Kingdom-based industrial group had acquired a substantial interest in the company three years earlier.

1970s

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 better customer service and achieve improved market penetration. Following on from this, a management philosophy of decentralising decision-making and responsibility was introduced. These strategies are still in place today.

1980s

In line with the specialisation trend amongst businesses at that time, Hudaco Industries was established as a separate autonomous subsidiary in 1981. In May 1984, with banks as partners, management 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

In 2007 (see page 32), the group sold 15% of all operating businesses, except Deutz Dieselpower, to BEE shareholders as part of a BBBEE initiative.

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Today

Today, 120 years since J Hubert Davies saw the business potential of the gold rush, the group remains true to its roots. The group now employs over 2 500 people and has a market capitalisation of about R3 billion. Its shareholders include many blue-chip players in the retirement investment industry.

Our 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, i.e. not just our shareholders.

To achieve this mission:

- We aim to produce superior returns for our **shareholders** by efficiently managing our businesses and by taking advantage of acquisitive and organic growth opportunities.
- We safeguard our strong market shares by offering quality products and ready availability to our **customers**.
- We establish enduring partnerships with our **suppliers**, combining their leading world brands and our distribution strengths in southern Africa.
- We ensure that a significant part of Hudaco's strength – its **people** – thrive in a decentralised, dynamic and challenging business environment.
- We are committed to playing our part in the transformation of **South Africa's society** and economy to help redress the inequities of the past.
- We aim to achieve these objectives in a manner governed by high 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**.

What we do and how we add value

Through our operating businesses, Hudaco's core activity is the importation and distribution of branded industrial consumable products. The three main success factors 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 where 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.
- In the engineering consumables businesses, we focus on offering consumable products. These would typically be maintenance spares for critical customer equipment. Purchasing decisions for these items are typically made easily and quickly without onerous tender procedures.

Hudaco sources products from more than 600 international suppliers scattered across the industrialised world. We supply some 20 000 active customers from over 120 southern African branches (most of which are in South Africa), and carry 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. Stockholding is therefore Hudaco's most important asset as our key competitive advantage is the ability to offer availability on demand.

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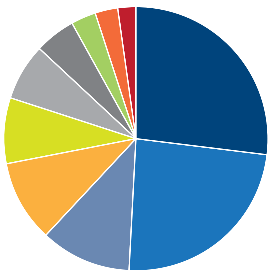
Sales by market sector (2011)



	%
Manufacturing	27
Mining	24
Wholesale and retail	11
Security	10
Automotive	8
Exports	7
Construction	5
Agriculture	3
Public sector	3
Other	2

Deutz Dieselpower – Diesel engine maintenance spares

Most emerging economies, including South Africa, lack a manufacturing industry with the necessary economies of scale to produce products which we (and our competitors) import.

Our products are distributed throughout southern Africa (generally with the exception of Angola) by our 17 businesses. Because business activity in neighbouring countries is relatively low, we generally supply through local distributors, whilst we have branded branches in Namibia and Botswana where we have a longer track record of doing business.

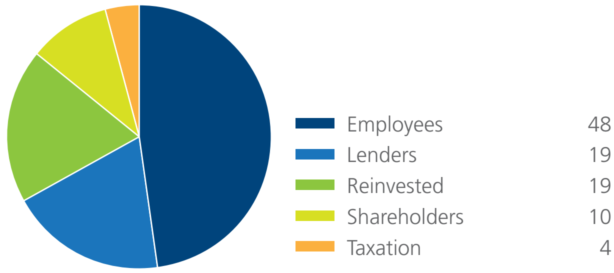
Our suppliers rely on our understanding of the specific challenges of doing business in Africa, particularly the political risk and the limitations which the size of these economies pose, and appoint us to represent their brands in markets which they would not ordinarily have been able to access. Crucially, we must adapt continually to the dynamics of doing business in Africa. Technical support is provided from South Africa until initiatives to develop locals with managerial and technical skills are successful.

Group 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.

	2011	2010
R million		
Turnover	3 182	2 458
Less: cost of materials, facilities and services from outside the group	2 115	1 633
Value added	1 067	825
Dividends received on preference shares	201	201
Total wealth created	1 268	1 026
Distributed to:		
Employees – salaries, wages and other benefits	605	504
Government – company taxation	47	23
Net finance costs	242	218
Shareholders – dividends	125	121
Maintain and expand the group		
– profits retained	213	116
– depreciation, amortisation and impairment	36	44
Total wealth distributed	1 268	1 026

Distribution of wealth created (2011) %



Statement of gross contributions to the government in South Africa

	2011	2010
R million		
Company income tax and STC	46	23
Customs and excise duty	51	36
Skills development levies and assessment rates	7	5
Value added tax not recognised as input credit	1	1
Direct contribution to government	105	65
Add the following collected on behalf of the government:		
Value added tax (net)	92	94
Employees' tax	102	81
	299	240

Our business segments

In compliance with IFRS, we have identified two reportable segments within the group, namely engineering consumables and consumer-related products. Our bearings and power transmission and diesel engine businesses supply engineering consumables mainly to mining and manufacturing customers, while the power tool, security equipment and automotive aftermarket businesses supply products into markets influenced to a great degree by consumer spending.

Engineering consumables

24

In 2011, 68% of turnover and 63% of operating profit

The engineering consumables segment is the main contributor to Hudaco's operating profits. The segment distributes a range of engineering products including bearings, hydraulics, pneumatics, filtration products, special electrical cables, conveyor belting, pulleys, drives, electric motors, thermoplastic pipes and fittings, and comprises the following main businesses:

- Bearings International has over 40 branches across South Africa. The main bearing brands distributed are FAG, KOYO and KML.

South Africa as the portal to Africa: *Africa is a growing area of activity for several Hudaco businesses. We don't always know when our products are to be used in other countries if the purchasing is done by a South African office of the end user. Examples of increased activity we are aware of include:*

- *We have secured exclusivity from Makita Japan for Mozambique, Zambia and Zimbabwe, in addition to our existing rights in South Africa, Namibia, Swaziland and Botswana. There is growing export market potential into these countries.*
- *For a number of years, Elvey has been devoting resources to the distribution of security products into sub-Saharan Africa. These efforts culminated in expanding the export branch based in Johannesburg in 2010. It focuses on sales into these markets and the sales team has learned to speak the required languages.*
- *Businesses supplying complementary products have combined well to supply into Africa, e.g. Powermite and Bauer have worked together to secure a significant project supplying electrical power transmission products to Sierra Leone.*
- *Global Communications is converting the communication network for Liberia's National Security Agency to a digital trunked radio network, which will allow the Liberian National Police, Border Control and Customs to join the network too.*

- Deutz Dieselpower (DDP) represents Deutz AG – one of the world's leading independent manufacturers of diesel engines.
- Filter and Hose Solutions (FHS) is a leading distributor of Donaldson filters for earthmoving equipment and Malcorp industrial hose. Open-cast miners and the construction industry represent a significant portion of its customer base.
- Power Transmission is a collective term for the following businesses supplying mechanical and electrical power transmission products: Ambro Sales, Astore Africa, Bauer Geared Motors, Belting Supply Services, Bosworth, Ernest Lowe, FHS, Powermite, Varispeed and our new addition, Midrand Special Steels.

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Consumer-related products

In 2011, 32% of turnover and 37% of operating profit

The consumer-related products segment houses four businesses:

- Abes Technoseal supplies a range of automotive replacement parts, primarily clutches and oil seals.
- Elvey Security Technologies is a leading distributor of electronic security equipment.
- Rutherford distributes Makita industrial power tools and Mercury and Mariner marine engines, the Topcon range of survey equipment and Troxler nuclear gauges for construction purposes.
- Global Communications is a provider of integrated telecommunications infrastructure and two-way radios from leading international producers such as Kenwood and JVC.

The Hudaco head office

The Hudaco head office regards itself as more than just an investment holding company. We see our main role as the creation of an environment where good managers can thrive. It also plays an important role in providing strategic direction and through sharing best practices. We buy and integrate, rather than buy and hold. While our trading activities may occur under the name of individual businesses, a common theme is adding value through the distribution of recognised brands with a strong technical support function in sectors we understand.

The head office essentially performs three functions:

- Management of a portfolio of businesses through acquisition, divestiture and merger activities; the appointment of key executives and the initiation of tactical and strategic moves.
- Providing limited group services to our businesses, but only if costs can be significantly reduced through scale or to more effectively manage risk.
- Managing investor relations, Hudaco provides an opportunity for our shareholders to participate in ownership of our underlying businesses. These are usually previously privately-held businesses to which they would not ordinarily be exposed.

These functions are explained further in the section 'Doing business with Hudaco' (page 36). 36

Drivers of profitability and sustainability

The main drivers of the profitability and sustainability of Hudaco are set out in the Group at a Glance section on page 2. 2

The risks we face

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
31	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. (See page 31)	For each 10% by which the Rand strengthens, operating profit decreases R100m 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.
	Inadequate supply of electricity	The lack of electricity is a constraint on GDP, a significant driver for Hudaco, and is likely to remain an issue until 2015. The mining industry, in particular, tends to be affected when power is in short supply.	Unable to quantify	Geographic diversification to other southern African countries. Acquiring businesses that serve different sectors, some of which are less dependent on electricity supply.	Some impact already being felt.
32	Changes in tax legislation	The Taxation Laws Amendment Act of 2011 introduced legislation that will result in the preference dividends arising from an investment made by Hudaco declared from 1 April 2012 becoming taxable. (See page 32)	R5m to R56m per annum	Consideration will be given as to whether the current preference share investment remains the most appropriate investment for Hudaco.	Some impact, but well below maximum level.
32	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 (e.g. 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
	Tax risk on group restructure	The restructuring of the group in 2007, which was aimed at introducing BEE shareholders, resulted in a low effective tax rate. SARS have sought extensive information from Hudaco and may seek to attack elements of the structure.	Maximum tax exposure is R65m per annum since Nov 2007, totalling R280m to date, if the interest deduction is disallowed.	Extensive advice was taken before the structure was put in place, including from senior counsel. The advice was that the structure would stand up to tax scrutiny. This has subsequently been reconfirmed by senior counsel. Documentation of the restructure is thorough and complete.	Unlikely.
	Poor acquisition	Acquired business performs well below expectations or exposes the group to significant unexpected risks.	R150m	Approving acquisitions on the basis of thorough due diligence reviews conducted by professionally qualified advisors and by our own experienced acquisitions team.	Unlikely.

Risk	Explanation	Potential exposure	Mitigation	Residual risk assessment
Natural disaster at supplier or customer	A natural disaster could cripple a factory of a major supplier or the operations of a major customer.	R20m	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.	Unlikely
Loss of key executives in businesses or at group level	Four members of the executive team reach retirement age within the next five years. 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 are considered annually by the remuneration and nomination committee. Other members of the group executive team have developed in-depth knowledge of each business. Earn-out periods keep vendors in the business to facilitate transition.	Highly unlikely
Loss of a major brand	While the portfolio of brands is diverse, there are two major brands the loss of which will have a significant effect on the results of the group. These brands, each of which contributes 10% to 15% of group operating profit, will be hard to replace.	Up to R60m 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 committee. The relationships with these brands is managed by the group chief executive. Acquisitions increase the number of suppliers and dilute exposure to these two brands. The element we cannot mitigate is the risk that a major principal ceases to exist.	Highly unlikely
Ineffective insurance	The risk that there is a major loss e.g. through fire and that the insurance claim is not met because the policy was defective or the insurer fails.	R100m	Insuring through reputable long-established underwriters and engaging high quality insurance brokers as advisors.	Will not occur

Our people

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In order to add value as described on page 13, the skills and experience of our people, i.e. our internal knowledge management systems, are critical to each of our growth areas.

Defending our market share depends on our ability to advise the customer on the correct specification and use of the product. It is a general trend in South Africa that technical expertise for our types of products has moved from the user to the supplier. Our ability, therefore, to add value to our customers depends heavily on our technical support function. The nature of the products we sell is such that the sales teams also need strong technical skills in addition to selling skills. Very often it is up to us to identify the customer's real need.

To achieve acquisitive growth, our acquisitions team needs to demonstrate deep insight and experience in the engineering sector. This is to be able to instil confidence in the seller of a business that we understand the market within which he operates and that a growth model post-acquisition is achievable, both for the seller (in terms of his earn-out targets) and for shareholders in Hudaco (in terms of contribution to group profits).

Our decentralised approach to management of our businesses means that we need people with strong administrative and financial skills, both in the businesses and at group level. The general deterioration in ethics in South Africa, accompanied by rising levels of fraud, make these skills all the more important.

Given the skills shortage in South Africa at present in all these categories, investment in our people remains a key component of the sustainability of our business model. (For more information on how we invest in our people, refer to the Building future capacity in Hudaco section on page 40.)

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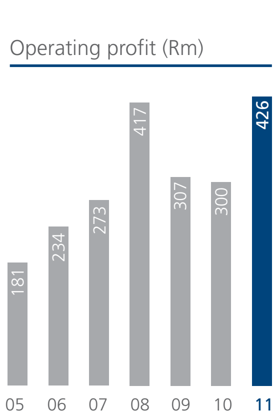
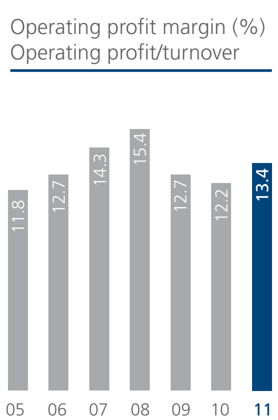
How we measure success

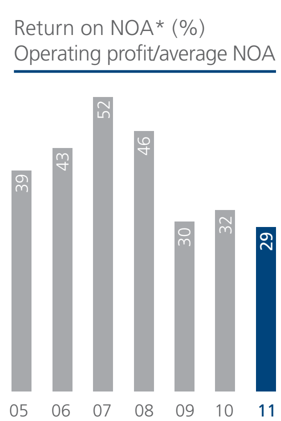
The key financial characteristics of the group are high returns on net operating assets and strong cash flows. These are used to fund additional working capital as our businesses grow, pay market-related dividends and invest in new businesses when opportunities are found.

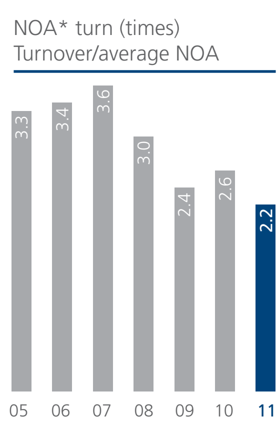
Our overriding financial objective is to achieve long-term growth in earnings and dividends per share, and our internal operating measures and incentive programmes are geared towards this goal. We measure our financial performance as follows:

- We target real growth in heps over the medium and long term. Heps for 2011 is 1024 cents as compared to 800 cents in 2010. Compound growth in heps over the past 10 years has been 16,4%, from 224 cents in 2001.
- Hudaco aims to achieve earnings growth at a rate at least in line with the earnings of the All Share Industrial Index (J257). Since 2001, earnings in the J257 showed compound growth of 13.3%. To achieve this, we encourage our businesses to grow while producing a return (over time) exceeding the cost of capital.
- 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.









** Net operating assets*

Emissions and fuel efficiency – Deutz Dieselpower

The differentiators of our diesel engines in the market are linked to sustainability issues. We are the only suppliers of air-cooled motors, with one fan robust enough for mining operations. The fuel consumption of our engines is also 15% more efficient than competitors' motors. Deutz AG spends around 10% of turnover on research and development annually, and the company's current focus areas include exhaust emissions and fuel efficiencies.

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

A RONA of 17% 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 2011 the return on net tangible operating assets was 46% (2010: 40%).

How we impact the environment and society

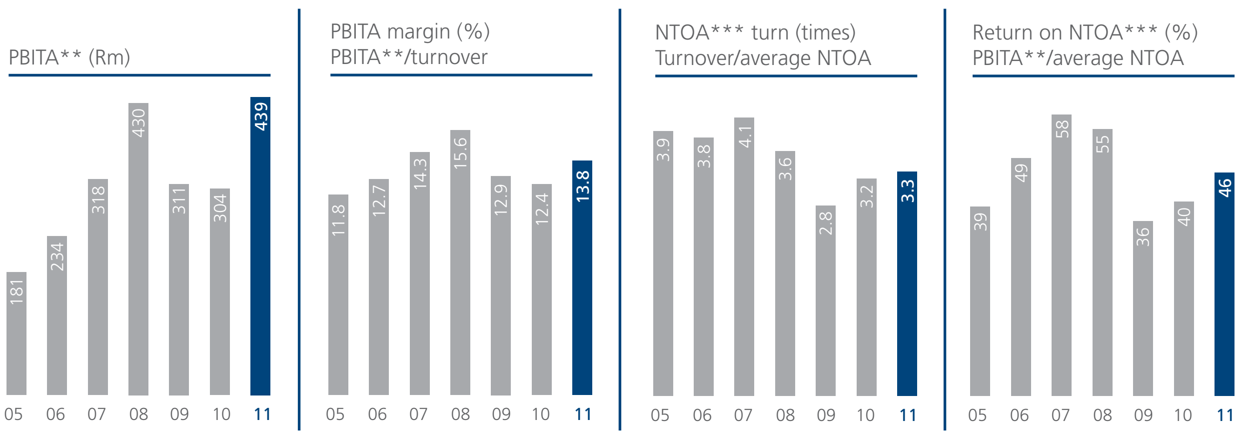
Our businesses are generally not involved in manufacturing, but operate warehouses and branch networks with low direct environmental and social impacts. We are, however, aware that our choice and location of suppliers have important consequences on our collective environmental impact.

Opportunities to minimise our environmental and social impacts are therefore primarily by 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.

We do not screen new businesses for their environmental and social performance, nor do we 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.

As importers, we understand that our products generally travel long distances before they eventually reach our customers. This is a consequence of our business model and our geographic location at the southern tip of Africa. We aim to achieve economies of scale by scheduling orders efficiently and streamlining our logistics operations, thus minimising our carbon footprint. Bearings International, which has about one-third of all branches in the group, is establishing satellite distribution centres in Cape Town and Durban. This will meaningfully reduce its transportation footprint.



*** Operating profit before amortisation* **** Net tangible operating assets*

Only to our comparatively low purchases from global suppliers as a proportion of their total sales, our ability to exercise influence over their manufacturing methods is small. For example, our total annual Makita power tools purchases are less than two days' production from Makita's factories globally.

Most of our major brands are manufactured according to the stringent environmental standards of Japan and Europe, which generally exceed the requirements of the countries where their products are used (e.g. the relatively poor South African emissions standards on diesel engines).

Environmental and social performance of suppliers is being driven by the largest markets which they supply (such as the EU and the US). As these markets tend to be progressive leaders in the environmental and social landscape, they will have much more influence on the production standards of our suppliers than we could ever have.

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

In line with our new approach to integrated reporting and increased transparency of disclosure, we recognise that we need to make greater efforts towards collecting information about the environmental and social impacts of both our suppliers' and our businesses' activities. We also, however, need to be practical, recognising that our ability to influence change will be small. For 2012 therefore, 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.

The potential introduction of a carbon tax in South Africa is a development we are watching with interest, particularly with regard to how this will be applied to imported goods.

Rutherford – cutting emissions with Makita lithium-ion battery garden equipment

Focus on the environment – Makita
Extracts from Makita Corporation 2011 Annual Report

As a global supplier of a comprehensive range of power tools that assist people in creating homes and living environments, it is vital that we consider the environmental impact of each person's lifestyle and recognise that environmental issues such as global warming concern us directly. The entire Makita Group is working to create a sustainable recycling-oriented society that combines the environment with the economy by reviewing our business activities and lifestyles from the ground up.

Makita designs and develops environment-friendly products. One notable line of environment-friendly gardening equipment is equipped with lithium-ion batteries that combine power on par with engine with low noise and vibration.

Integrated reporting
at Hudaco

Communicating our values

Hudaco subscribes to sound corporate governance. We are aware of our financial reporting obligations, respect the confidentiality of our business partners and investors, and strive to achieve the right balance between consistency and autonomy in our various businesses.

Although these values have not fundamentally changed, the introduction of King III and its requirements for integrated corporate reporting have presented us with the opportunity to revise our thinking with regard to communicating these values.

We acknowledge that the opportunity for our staff, suppliers and investor community to interact with the executive team is limited. In this 2011 integrated report we try to provide a more thorough disclosure of our values and performance to a broader range of stakeholders than in previous reports.

Introduction of King III

This is Hudaco's first integrated report prepared in terms of the JSE's requirements for Integrated Reporting and the King III Code on Corporate Governance, published in 2009 by the Institute of Directors of Southern Africa, and applicable to all listed companies with a financial year end of February 2011 or later. It also meets all the other legal requirements to which the company must adhere (such as the new Companies Act).

This report tries to integrate the operational, financial and sustainability (environmental, social and governance) issues in relation 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.

While we acknowledge that there are areas to improve in Hudaco's reporting and we are committed to addressing these in subsequent reports, we believe that this 2011 report is a move towards best international practice, and provides stakeholders with a more detailed view of our activities in 2011 and outlines our approach to these issues in the years ahead. Hudaco's reporting complies with application level C of the Global Reporting Initiative (GRI) sustainability guidelines on economic, environmental and social performance, adopted by the group in 2010.

Reporting framework for 2011

This integrated report is used as a vehicle to communicate our evolving business model and the quality of the decisions that have led to our financial results. 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 detail of the underlying operations.

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

- The Hudaco mission
- The Hudaco business model
- Our strategic objectives
- Input received from the stakeholder engagement process
- Reporting requirements for a listed company, including legislation, King III and JSE requirements
- Performance and developments during the year
- Matters we believe are of relevance to stakeholders.

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Stakeholder engagement

In terms of the requirements of sustainability reporting standards, we asked stakeholders what material information they required to maintain a mutually successful and sustainable business relationship. Stakeholders we are accountable to are: investors, shareholders, suppliers, staff, customers and communities in and around our premises. In this report, we aim to provide each with information on material issues as identified in the table on page 22.

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We have rated the following stakeholders as the most significant (in no particular order):

- Shareholders and investors, current and future, private and institutional
- Staff: the 2 500 people in Hudaco's 17 businesses
- Principals/suppliers.

Winner of **Investment Analysts Society award** for best reporting and communication 2011 – companies with market capitalisation below R5 billion

Belting Supply Services – keeping production lines moving

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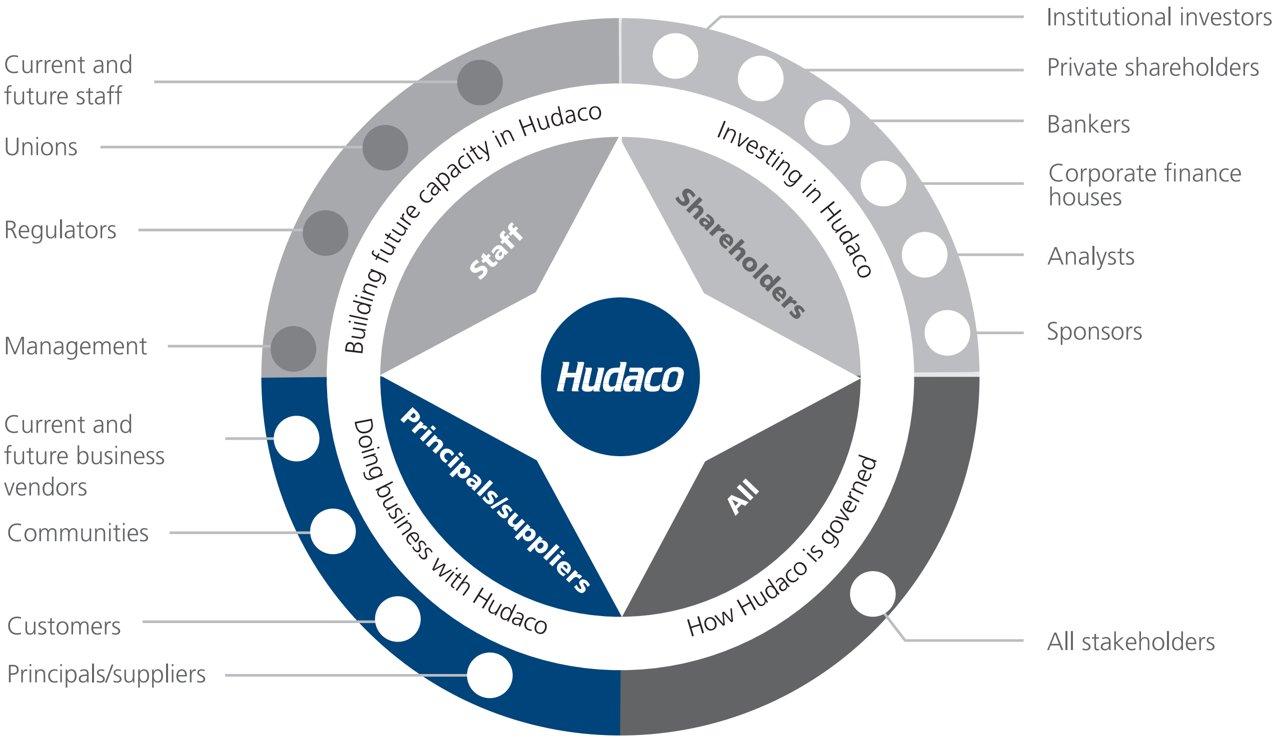
The table below details the issues considered by stakeholders to be material. These were determined through our stakeholder engagement process. The diagram on page 23 identifies where these issues were dealt with in this report.

Stakeholders' material issues

Stakeholders	Relationship	Material issues	Communication forum
Private shareholders and institutional investors	Shareholders	• Compliance, governance • Share price, dividend policy, return on investment, profitability • Management competence • Growth strategy • Business model • Acquisitions – deal flow and success of outcomes • Management remuneration • Risks	• Integrated and interim reports • Results presentations • Informal discussions • Hudaco website • Annual general meeting • Press interviews
Bankers	Financiers	• Statements of financial position, comprehensive income and cash flows	• Integrated and interim reports • Annual credit reviews
End users of products	Customers	• BEE credentials • Brand • Product quality • Technical support • Service turnaround • Pricing • Reputation	• Personal contact • Product marketing • Service levels • BEE scorecard • Business unit websites
Management of businesses	Management, potential vendors	• 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 operational companies • 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
Owners of privately-owned businesses	Potential vendors	• Acquisition and earn-out process • Exit opportunities • BEE credentials • Support for growth opportunities	• Integrated report • BEE scorecards • Personal contact
Principals	Suppliers	• 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
Employees of Hudaco and businesses	Staff	• Career development • Leadership succession planning • Remuneration • Skills retention and development • BEE	• Integrated report • Policy documentation • Personal contact • Retirement fund reports

Relevance of report sections to broad groups of stakeholders



Investing
in Hudaco

Although uncertainty was again the order of the day in 2011, similar to the difficult 2009 and 2010 financial years, Hudaco performed well this year. Many businesses throughout the world continued to suffer from the effects of the global financial crisis. We believe that Hudaco's performance over these three years is a testament to the resilience of the business model. In the 2011 Sunday Times Top 100 companies measured by total return to shareholders over five and 10 years Hudaco was ranked 42 and 20 respectively. Similarly, in the Financial Mail Top 200 Performers measured by internal rate of return (IRR) over five years, Hudaco was ranked 55th. Over the long-term we believe Hudaco's earnings and dividends will continue to outperform the market.

The board believes that more emphasis should be placed on the strength of our existing businesses in public communications. In discussing acquisitions made and prospects for further acquisitions, care will be taken to highlight the excellent current portfolio.

In 2011, operating profit increased 42% to R426 million and headline earnings per share increased 28% to 1024 cents. After taking into account the effect of their financing, acquisitions contributed 17% to this growth. Organic growth in the existing businesses contributed the remaining 11%.

TOP 100

Sunday Times **Top 100 companies 2011** measured by total return to shareholders over five and 10 years, **Hudaco** was ranked **42nd** and **20th** respectively.

The amortisation of intangibles has become more significant because of the acquisitions. Heps, excluding amortisation, would have been 1049 cents per share, up 30% on 2010. At year end the financial position remains strong with cash in the bank of R169 million.

Existing businesses

We possess distribution rights for excellent product brands. A consistent objective is optimising growth within our existing portfolio – i.e. improving geographic spread, increasing the product offering and matching gaps in customer requirements. This is augmented by growth through acquisitions.

Engineering consumables

The *engineering consumables segment* comprises the following main businesses and activities:

- Bearing International (BI) has over 40 branches across South Africa. The main bearing brand distributed is FAG, which is of German origin.
- Deutz Dieselpower (DDP) represents Deutz AG – one of the world's leading independent manufacturers of diesel engines.
- Filter and Hose Solutions (FHS) is a leading distributor of Donaldson filters for earthmoving equipment and Malcorp industrial hose. Open-cast miners represent a significant portion of its customer base.
- Power Transmission is a collective term for the following businesses supplying mechanical and electrical power transmission products: Ambro Sales, Ampco, Astore Africa, Bauer Geared Motors, Belting Supply Services, Bosworth, Ernest Lowe, Powermite, Varispeed and our new addition, Midrand Special Steels.

Performance

In 2011 the *engineering consumables segment* comprised 68% of group turnover and 63% of group operating profit. Turnover grew by 25% to R2,2 billion and operating profit grew 33% to R274 million. Of the 33% increase in operating profit, 9% was from existing businesses and 24% was from acquisitions.

Deutz Dieselpower – driving the mining sector

Deutz Dieselpower (DDP)

There are an estimated 26 000 Deutz diesel engines installed in South Africa, and only 5-10 original equipment manufacturers (OEMs) in the country. Around 15% of DDP's sales of engines are to local OEMs, with the remainder being replacements for engines at the end of their life cycle. The margin on parts is higher than on new engines, so a key strategy to grow profitability is to grow the engine population in sub-Saharan Africa. We do this by offering excellent support for Deutz engines wherever they are located and however they arrived in this territory. Since 2007, there has been sharp growth in sales of diesel generators to manage intermittent electricity supplies. The Deutz engine is designed (and priced) for constant load applications so has not benefited from this surge in demand. The mining sector currently accounts for 60% of DDP's sales, but the opportunity for growth in other sectors (such as construction and communications) is part of DDP's strategy to diversify revenue sources. Non-mining revenue for DDP is currently derived from the defence force (via Armscor), the marine and construction sectors, and generator sets for cellular base station expansions for Africa's cellular phone network.

Businesses supplying replacement parts are generally more dependent on economic activity (GDP) than fixed investment (GDFI) growth. This tends to make the earnings of *the engineering consumables segment* less cyclical compared with, for instance, distributors of capital equipment. During economic downturns, customers may mothball capital equipment from which they can strip replacement parts, but this generally does not last long and demand soon resumes. Being low value critical items, our products are generally not very price sensitive.

The main bearing and other consumable brands stocked by Hudaco are mostly of European or Japanese origin. The possibility of Chinese and Indian brands taking market share from Hudaco is sometimes seen by analysts as a threat. However the opposite is true. Because parts sourced from these countries are known to be generally lower in quality, customers are reluctant to compromise by buying cheaper parts through an unknown distribution channel. Once manufacturers in those countries reach the appropriate quality to price standard, Hudaco is a logical local distributor and we already carry many brands from these countries alongside our more established brands. Rather than a threat it should be seen as an opportunity.

Principal brands Mechanical power transmission

European pneumatic equipment.
Sole distributor since 1959

Thermoplastic valves from Austria.
Sole distributor since 1995

Industrial hose from Thailand.
Sole distributor since 2002

Transmission and conveyor belting from Switzerland.
Distributor since 1970.

Heavy duty filtration systems from USA.
Distributor since 1994

High performance industrial hose from Malaysia.
Sole distributor since 2003

High performance hydraulic filtration from Italy.
Sole distributor since 2003

Refer to page 39 for a geographic analysis of the source of engineering consumables.

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The largest business by turnover in this segment, Bearings International, had a difficult year. Bearings International moved into new purpose built premises in May 2011 and experienced numerous moving related problems which resulted in a drop in focus on day-to-day operations. Management was restructured in the second half and with the moving-related issues largely behind them, they managed to finish the year strongly.

Bearings International's new distribution centre

Principal brands Electrical power transmission

Variable speed drives from Japan. Sole distributor since 1992

Geared motors from Germany. Sole distributor since 1989

Own range of electrical plugs and sockets since 1974

Plugs and sockets from Germany. Sole distributor since 1974

Electrical feeder systems from Europe. Sole distributor since 1970

Principal brands Bearings International

Precision bearings from Germany. Distributor since 2005

Ball and roller bearings from Japan. Sole distributor since 1962

Principal brand Deutz Dieselpower

Air and liquid-cooled engines from Germany 22 - 520Kw. Sole distributor since 1969

Deutz Dieselpower had a good year. Demand for diesel engines and spares picked up in the second quarter of the year and remained steady throughout the rest of the year. Deutz remains the engine of choice for underground mining operations. Filter and Hose Solutions had an excellent year taking advantage of demand for high-performance filters required by diesel engines using high pressure common rail fuel systems developed to meet new emission standards.

The power transmission businesses also delivered solid results. Bosworth finished the year strongly after being well behind last year's performance in the first half. Pulley orders for the new Kusile power station and coal field and harbour expansions in Mozambique will be carried into 2012. Powermite secured substantial orders from project houses, mainly for power generation and the mining industry in 2011, which resulted in increased profits.

Outlook

Two major macroeconomic factors affecting the profitability of the engineering consumables segment are:

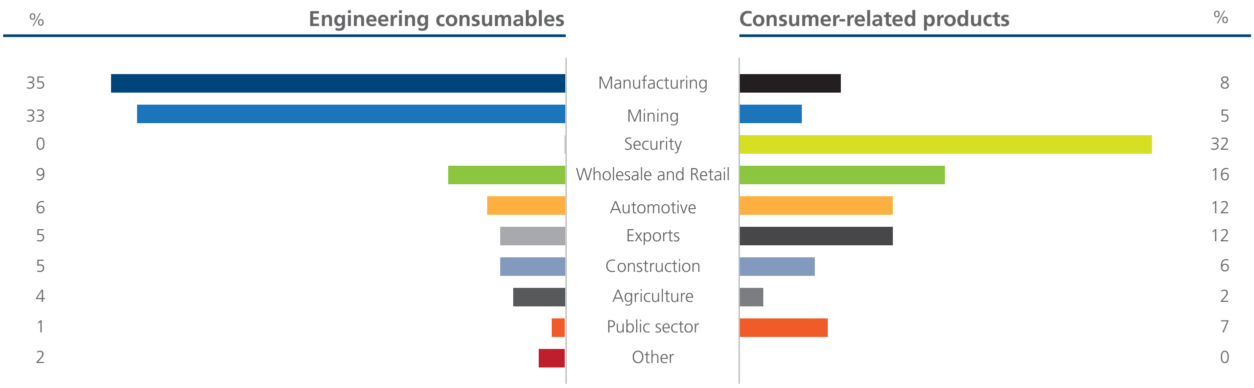
- Activity or output in the mining and manufacturing sectors; and
- Rand strength or weakness.

The mining sector in South Africa is supported by a local manufacturing industry with a long track record of interdependence. These two market segments are significant users of engineering consumables and represent approximately 68% of sales of the engineering consumables segment.

Factors contributing to a positive long-term outlook for the local mining sector include continuing robust long-term demand from China and India, and a weaker outlook for the Rand. The Rand price of gold surged higher this year. Platinum, coal and iron ore prices, whilst down from their peaks, remain attractive. Once infrastructure constraints (electricity and rail capacity mainly) are overcome, this sector should grow strongly. In the meantime, mining activity in neighbouring countries has already started to grow robustly in response to higher commodity prices.

Rand weakness, such as occurred in the last quarter of 2011, has traditionally led to increased activity by mines and local manufacturers and this bodes well for this segment's prospects in 2012.

Sales by market sector 2011



Abes Technoseal – serving the automotive after-market

Elvey Security Technologies – providing remote monitoring

Elvey

There is an absence of market intelligence for the security market in South Africa. Efforts to utilise an independent auditing firm to measure the number of installations of home-based security systems in the market has not been supported by market players. There is a trend in Europe not to give exclusivity of brand in the distribution chain and we are positioning ourselves for a similar development here. Our research showed a market preference for entry-level product lines when home owners can only afford to focus on internal security systems and omit perimeter and outdoor options, a market we are not very active in at present.

Consumer-related products

The *consumer-related products segment* comprises the following main businesses and activities:

- Abes Technoseal supplies a range of products of automotive replacement parts, primarily clutches, ignition leads and oil seals.
- Elvey Security Technologies is a leading distributor of electronic security equipment. Its main customers are ADT and Chubb.
- Rutherford distributes Makita industrial power tools and Mercury and Mariner marine engines, the Topcon range of survey equipment and Troxler nuclear gauges for construction purposes.
- Global Communications is a provider of integrated telecommunications infrastructure and two-way radios from leading international producers such as Kenwood and JVC.

Performance

3

In 2011 the *consumer-related products segment* comprised 32% of group turnover and 37% of group operating profit. Turnover grew by 41% to R1 billion and operating profit grew 39% to R163 million. Of the 39% increase in operating profit, 3% was from existing businesses and 36% was from acquisitions.

Rutherford enjoyed a good year. Makita industrial power tools increased unit sales over 2010 largely due to an increase in market share by broadening its customer base and expanding into neighbouring territories. The lithium ion cordless range of power tools more than doubled sales this year with Makita now the market leader in this sector. Rand strength over the 2009 to 2011 period resulted in major price reductions, which were marketed as competitive specials, an effective marketing tactic. The marine business continues to trade under very difficult market conditions whilst the instrumentation business increased turnover and operating profit by selling significantly more in the mining sector and neighbouring territories.

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Elvey had a quiet year with both turnover and profit declining. New products, such as the Bosch range of CCTV, Electronics Line and Visonic, both fully wireless intruder detection offerings, were brought into the range to cater for different feature and price points. Pentagon, a distributor of CCTV equipment, including systems design, integration into access control, fire detection systems and video over IP, was acquired in 2011, giving Elvey an important entry into a growing project market.

Global Communications had an excellent first year in the group. The business, a specialised systems integrator, is a significant player in the migration from analogue to digital communication throughout Africa. Customers are mainly in the public sector and include municipalities using digital equipment to monitor private electricity usage and water meters, substations, street light management and traffic lights.

Abes Technoseal had a solid year, not managing to increase profits but improving returns. The introduction of sophisticated new technology products is playing a greater part in the automotive aftermarket raising the barrier of entry and making alignment with a leading world player such as the Valeo Group a more attractive asset.

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Refer to page 39 for a geographic analysis of the source of consumer-related products.

Global Communications – reaching you anywhere

Principal brands Elvey Security Technologies and Pentagon

Sole distributor of Canadian manufactured DSC products since 1990. Holder of distribution rights on complementary Tyco brands

Japanese intrusion detection devices.
Sole distributor since 1987

USA manufacturer of intrusion control panels and equipment.
Sole distributor since 1987

Chinese manufacturer of digital video recorders.
Sole distributor since 2010

Range of locally and internationally sourced security accessories and CCTV products. Alarm Supplies distributed exclusively through Elvey since 1994

South African manufacturer of access control systems. Sole distributor since 2003

Wireless and hybrid intruder detection system manufacturer based in Israel. Sole distributor as of 2012

Specialised German-designed IP and analogue CCTV products distributor since 2005

Principal brands Rutherford

Japanese industrial power tools.
Distributor since 1968
Sole distributor since 1985

Outboard motors from USA.
Sole distributor since 1986

Petrol inboards and sterndrives from USA.
Sole distributor since 1986

Global positioning systems and survey instrumentation from Japan and USA.
Sole distributor since 1969

Nuclear gauges used for compaction control of soil, concrete, asphalt and aggregate from the USA.
Sole distributor since 1974

Principal brands Abes Technoseal

Oil seals from Germany.
Preferred distributor since 1950

Ignition cables from France.
Exclusive distributor since 2007

Light duty clutch kits from France.
Exclusive distributor since 2005

Clutch kits from Japan.
Sole distributor since 2007

Clutch kits from Korea.
Exclusive distributor since 1994

Principal brands Global Communication

PMR equipment and radio networks. Sole distributor for southern Africa since 1987

CCTV cameras and video systems
Distribution started in 2009

Rutherford Marine –
powering the leisure market

Rutherford Marine

Mercury/Mariner, the largest manufacturer of four-stroke outboard and inboard marine motors, has factories in the USA, Europe and China. In our 2010 report, we highlighted the impact on the market of the National Credit Act, government-regulated fishing licences and the quota system. As a result of these regulations, sales to the fishing industry collapsed and the product became largely leisure market only. There are also fewer open water bodies, such as a lakes and rivers, available for pleasure sports and pollution levels of inland waters have increased. In addition the number of people qualifying for finance dropped from 80% to 20% of applicants. With consumers having less disposable income for pleasure sports, the market profile changed to more upmarket, higher-priced engines. The market for marine motors in South Africa has fallen from 13 000 units 14 years ago to less than 4 000 in 2011 and sales of Mercury motors have declined in line with the overall outboard market in South Africa. The Marine division contributed 22% of Rutherford's sales in 2011.

Our marketing efforts have adapted to reflect these changes: we focus more on boatbuilders, who have a closer relationship with boat users. We continue to attend all major fishing competitions to promote the brand. We have also deepened our penetration into this smaller market through our expansion into marine accessories (lifejackets, boat accessories, and water toys).Cost cutting was also necessary under the circumstances.

As a result of these management interventions in response to market conditions, we have been able to achieve an above average return on net operating assets in 2011, and have retained our overall market share.

Outlook

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

- Consumer spending; and
- Rand strength or weakness.

Due to on-selling arrangements in our distribution chain, we are unsighted as to the final use of many of the consumer-related products and therefore cannot describe precisely which sector drives growth.

We think that consumer spending is mostly responsible for demand for the products in this segment but there is no doubt that a significant proportion is used by industry in general. For example, when gold soared to new heights in 2011, supported by slightly higher platinum prices, we could only anecdotally establish a correlation with the corresponding rapid growth in demand for power tools in mining areas. Similarly, when we sell intruder detection equipment to installers we do not know whether it is to be used in residential, commercial or industrial environments, for new developments or for upgrades to existing systems. We therefore monitor general trends, such as consumer spending and total GDP as a guide to forecasting the outlook for this segment of our business.

Economic data and forecasts indicate that:

- The outlook for disposable income growth is heavily dependent on employment growth. Unfortunately, unemployment levels increased during 2011 and are expected to increase further in 2012.
- Although new vehicle sales have picked up considerably since the unnatural low of 2009 (80 000 units) to almost 130 000 in 2011, limited employment prospects outside of the public sector will probably keep sales in the 110 000–120 000 vehicles per year bracket for the next three years.
- Residential building plans are picking up (due to the prime lending rate being at an all-time low) but the upcycle will be hampered by weak confidence, high debt levels and tight credit conditions.

- Although personal debt as a percentage of personal disposable income came off its 2010 high of 82%, and is projected to decrease slightly in 2012, it remains stubbornly high.

Based on the above, we expect growth in local volume sales in this segment to be muted over the next two years. However, sales to faster growing neighbouring countries are expected to continue to grow.

Acquisitions

In last year's annual report, we signalled that we had recommenced our acquisition programme after a nearly two-year suspension during the banking crisis. These renewed efforts first bore fruit in September 2010 with the acquisition of Filter and Hose Solutions. The immediate success of this investment demonstrates our ability to choose our investments wisely. Another three successful acquisitions in 2011 have since been made, namely Midrand Special Steels, Global Communications and Pentagon.

As the South African regulatory environment tightens, the cost of compliance rises and BEE qualifications become more onerous, there will continue to be a stream of privately-owned businesses available for purchase. We therefore expect to continue to find opportunities to acquire attractive businesses which will contribute to earnings growth at relatively low risk.

Every investment opportunity is weighed against the alternative opportunity of buying our own shares. Taking into account that privately held businesses are being purchased at a PE of between 4 and 7, whereas the group is trading at a PE of about 10, buying our own shares does not make sense.

For an investor, the opportunity Hudaco represents is having line of sight through to these attractive new businesses.

Businesses are invariably bought on an earn-out basis, which is attractive to sellers who believe their businesses have exciting growth prospects. It simultaneously provides a cushion for Hudaco if the businesses do not perform to sellers' expectations. Detailed valuation processes are designed to minimise risk and ensure that we do not overpay. In terms of such earn-out arrangements, a portion of the purchase price is usually paid up-front, with the remainder dependent on the level of performance achieved over three years

Ideally we would like to have a reasonable level of financial gearing and our acquisition strategy may well result in our achieving this objective in the near future if we raise debt to finance further acquisitions. We seek to ensure that interest on senior debt is covered at least five times by operating profit. In addition, we aim to operate with net senior debt no higher than 50% of total shareholders' funds.

Interactions with investors reveal that they would like more visibility on the success or otherwise of individual acquisitions. This information is not disclosed because we believe that providing more detailed information on individual businesses would be prejudicial to our competitive position. As a result, we follow the segmental reporting requirements of International Financial Reporting Standards and do not break down the information any further. However, the aggregated results of businesses acquired in the past two years can be found in the statement of comprehensive income on page 64.

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Cash disbursements on acquisitions

	Effective date	Payments to Nov 2011	Estimated future payments			Estimated total consider-ation
			2012	2013	2014	
R million						
Supreme Fluids*	Jun 2007	4				4
Bougicord*	Jul 2007	23				23
Astore Africa	Feb 2008	95				95
Ambro Sales	Mar 2008	40	6			46
Filter and Hose Solutions	Sep 2010	223	51	62		336
Midrand Special Steels	Dec 2010	10	5	5	5	25
Global Communications	Feb 2011	72	53	57		182
Pentagon	Mar 2011	26	5	1	12	44
		493	120	125	17	755

* *Incorporated into Abes Technoseal*

Acquiring distribution rights for a competing brand is generally not feasible where we already represent a major global brand. We therefore look to acquire businesses distributing products not already in our portfolio. Major manufacturers with a global presence are invariably already represented locally, and opportunities to bring those rights into the Hudaco portfolio usually only take place when the local owners of the distribution rights wish to disinvest.

Consequently, opportunities to acquire new distribution rights present themselves only rarely, which means that our acquisition strategy has to be opportunistic in nature. We do, however, maintain a wish list and have a shortlist of targets currently under consideration. However, we remind investors that accounting standard IFRS 3, requiring intangibles in an acquisition to be fair valued and amortised, results in acquisitions often not adding to earnings to the same extent as they had in the past.

Rutherford – measuring angles and distance underground

The importance of foreign exchange rates to Hudaco

As we are 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 be falling in response to a strengthening Rand whilst expenses are rising. The result will be a margin squeeze. We estimate that a 10% strengthening of the Rand could result in a R100 million fall in operating profit over a full financial year.

Illustration of the impact on the group of a 10% change in the exchange rate without management intervention

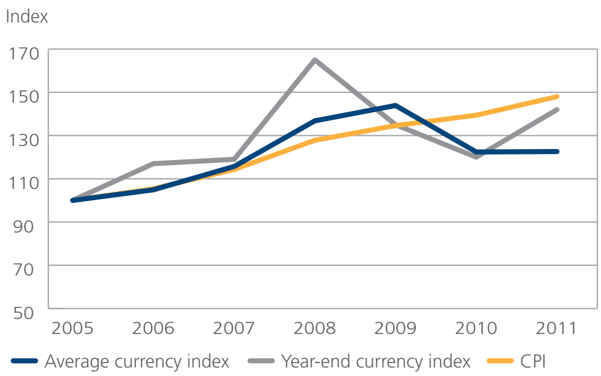
Scenario	Base case	Rand strengthens 10%	Rand weakens 10%
Sales	100	90	110
Cost of goods	60	54	66
Gross profit	40	36	44
Operating costs	30	30	30
Operating profit	10	6	14

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-Euro and Rand-Dollar 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 between currency regions.

The Rand appreciated significantly against the currencies of most developed economies since the beginning of 2009. For the majority of 2011, the Rand continued to strengthen, resulting in further price reductions. The recent depreciation of the Rand since September 2011, is most welcome, and has eliminated much of the margin squeeze we were experiencing.

The graph below shows how the weighted exchange rate index for the basket of currencies that Hudaco purchases has moved relative to the consumer price index (CPI).

Historical movement in foreign exchange rates for Hudaco's basket of currencies



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 covered forward (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.

Examples of the impact of changing exchange rates include:

- Makita stock availability is normally 3,5 months in-store and one month on water. In a precautionary response to the tsunami in Japan in March 2011, we built up our stock in-store to 4,5 months, translating to approximately R8 million worth of additional stock. This stood us in good stead when the Rand started weakening later in the year.
- At Deutz Dieselpower, as is the case in all our businesses, a weaker Rand results in increased prices. Contract agreements with major customers include a clause that permits a price adjustment only if the currency moves by more than 5% for two months. This means that price increases resulting from Rand weakness from September onwards, will not be effective until December 2011.

Elvey Security Technologies – intruder detection systems

Deutz AG has developed live production data systems so Deutz Dieselpower is able to enter orders directly onto the manufacturing line. This has resulted in a higher degree of manufacturing flexibility and quicker response to customer requests. The move to just-in-time ordering processes reduces exposure to exchange rate risk.

BEE structure and taxation

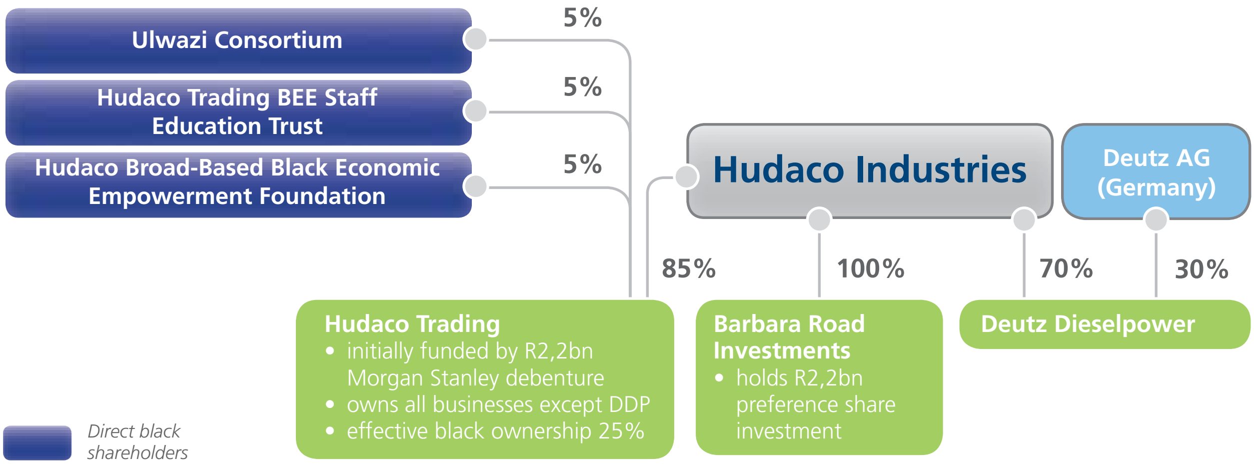
The group's effective rate of taxation this year is 12% (2010: 9%). The reason why this rate is so much lower than the 28% official company tax rate is the tax free dividends received on the preference shares acquired by a subsidiary pursuant to the sale of businesses in 2007. The preference shares were funded from the proceeds of the restructuring process and serve as security for the funding that was obtained by Hudaco Trading. The structure remains in place until 2017 but in future years the tax rate should increase as incremental profits are taxed at the full rate. Changes to legislation may also increase the effective tax rate.

The BEE restructuring, a step deemed critical to the long-term sustainability of the group, introduced direct BEE ownership of 15% in the group's primary operating subsidiary, Hudaco Trading, bringing its total black ownership, including indirect ownership through mandated investments, to 25%. This resulted in it qualifying for the maximum number of points available for equity ownership in terms of the BEE scorecard prescribed by the Department of Trade and Industry. In addition to giving up 15% of their shareholding in perpetuity, shareholders at the time bore an initial cost of R44 million by way of an IFRS 2 charge in the statement of comprehensive income. Deutz Dieselpower, our diesel engine business, which has its supplier, Deutz AG of Germany, as a 30% shareholder, chose not to participate in this restructuring.

The direct BEE ownership in Hudaco Trading is held by The Hudaco Trading BEE Staff Education Trust and The Hudaco Broad-Based Black Economic Empowerment Foundation with 5% each and a consortium of individual entrepreneurs, the Ulwazi Consortium, with 5%.

The BEE shareholders were introduced in such a way as to avoid the need for them to have to borrow money on onerous terms. This addressed the risk that if the economy did not track forever upwards, allowing the company to pay increasing dividends to finance the purchase of the shares, all or some of the BEE shareholders' investment would have to be forfeited to the finance providers. In the event, given the very difficult trading conditions in 2009 and 2010, the decision to structure the entry of the BEE shareholders in this manner turned out to be prescient. Proposed tax changes seem to be aimed at

Abridged group structure



impacting on the viability of BEE transactions implemented in this manner.

The mechanism that was used to achieve the objective set out above was as follows: Hudaco Trading was formed as a new company with nominal share capital owned 85% by Hudaco and 15% by the BEE shareholders. Hudaco Trading borrowed R2.2 billion from Morgan Stanley by issuing a debenture. It used the money to purchase the trading operations from other Hudaco companies (100% owned) at fair value. The proceeds received by the other Hudaco companies were used to purchase preference shares from a company in the Cadiz group.

Over the past two and a half years, SARS has sent letters requesting information on the BEE structure. The most recent is to be responded to shortly. The directors took extensive tax advice prior to putting the transaction in place, especially pertaining to the viability of the transaction from a BEE perspective. This advice was that the transaction would stand up to tax scrutiny and nothing raised by SARS in their requests for information has caused the board, management or its tax advisors, including senior counsel, to believe otherwise.

The Taxation Laws Amendment Act of 2011 introduced changes to legislation that will make dividends declared on or after 1 April 2012 on the preference share investment taxable. The board is in the process of determining the most appropriate way forward.

Black Economic Empowerment

During 2011, all businesses were again audited by independent verification bodies and all but one achieved level 4 or better against the DTI codes. Bearings International and Bauer achieved level 3, meaning that their customers are able to claim 137,5% of their spend with us for the purpose of their own scorecard. Level 4 companies contribute 100% of the spend value towards their customers' rating. Deutz Dieselpower is the only business within the group which is not housed within the BEE structure and is a level 6 contributor as of November 2011, from having been at level 8 in 2010.

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
- Attracting potential acquisitions: all the acquisitions we have made in the last two years were previously 100% owned by white shareholders. Our BEE status has become critical to our acquisitive success.

See page 40 to 46 for further details of our transformation programme.

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Shareholder analysis

at 25 November 2011

Shareholder analysis	Number of shares	% of issued shares	Number of shareholders
Portfolio size			
Up to 1 000 shares	684 582	2,16	1 758
1 001 – 5 000 shares	1 400 448	4,43	569
5 001 – 10 000 shares	1 037 525	3,28	133
10 001 – 100 000 shares	6 349 743	20,06	207
Over 100 000 shares	22 173 405	70,07	61
Total[(1)]	31 645 703	100,00	2 728
Category			
Banks and nominee companies	1 889 007	5,97	23
Financial institutions and pension funds	23 832 975	75,31	193
Individuals	4 519 774	14,28	2 440
Other corporate bodies	1 403 947	4,44	72
Total[(1)]	31 645 703	100,00	2 728
Shareholder spread			
Public	27 077 763	85,57	2 705
Non-public	4 567 940	14,43	23
Directors and associates[(2)]	737 052	2,33	21
Strategic holdings (more than 10%)	3 826 688	12,09	1
Share trust	4 200	0,01	1
Total[(1)]	31 645 703	100,00	2 728

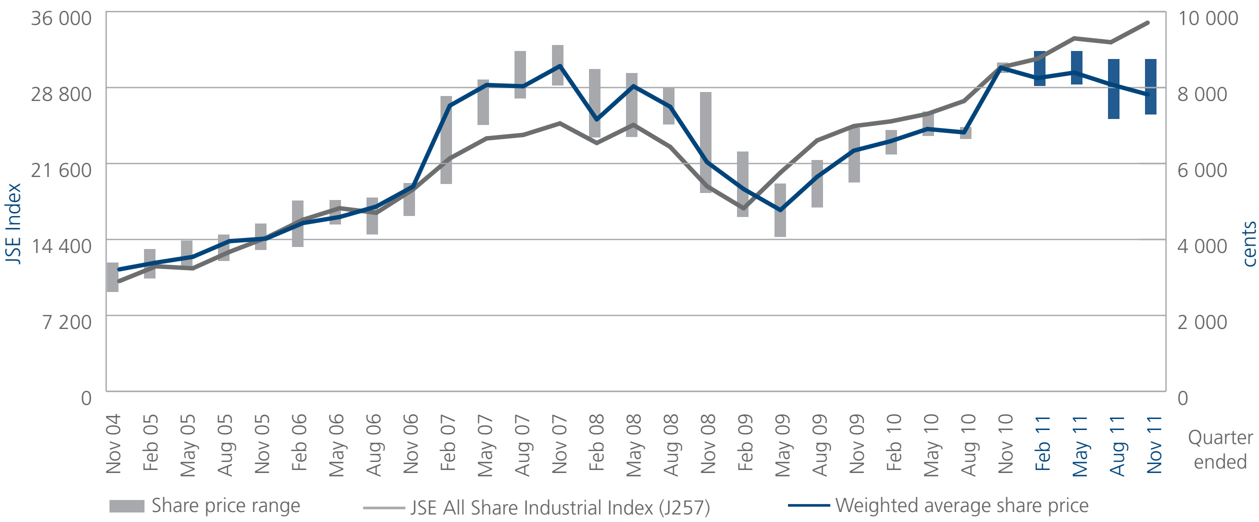
	Number of shares held	% of issued share capital
Major shareholders		
Beneficial shareholders holding more than 3%		
Old Mutual Life Assurance Co SA	3 826 688	12,09
Government Employees Pension Fund	2 231 616	7,05
Nedgroup Investments Value Fund	1 525 000	4,82
Nedgroup Investments Rainmaker Fund	1 230 556	3,89
Fund managers holding more than 3%		
Old Mutual Investment Group (South Africa)	10 180 329	32,17
Foord Asset Management	3 384 000	10,69
Investec Asset Management	2 373 290	7,50
Abax Investments	2 083 644	6,58
Sanlam Investment Management	1 575 362	4,98
Momentum Asset Management	1 309 948	4,14

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

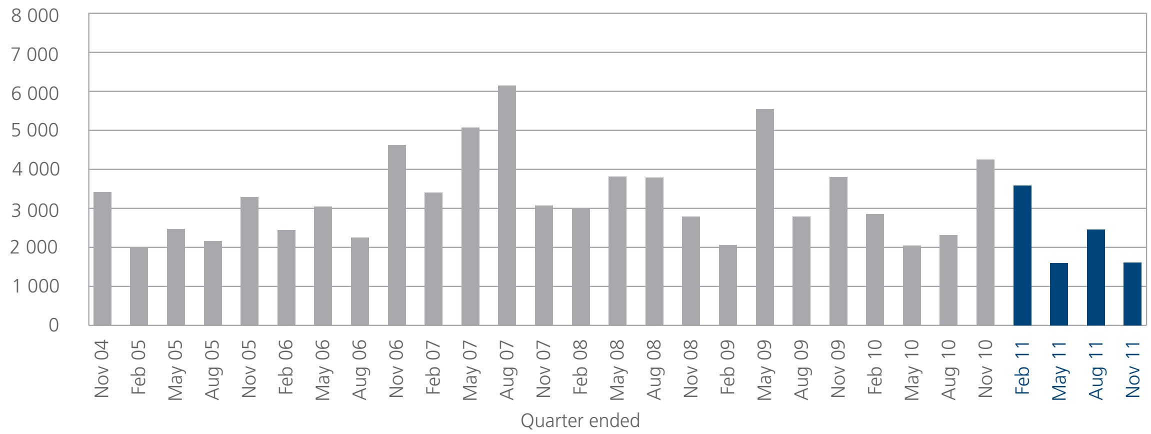
Share information

for the year ended 30 November 2011

Share price history



Volume traded on JSE (000)



	2011	2010	2009	2008	2007	2006	2005
JSE statistics							
Market price (cents)	**8 475**	8 501	6 600	5 600	8 500	5 400	3 985
NAV per share (cents)	**4 721**	4 080	3 681	3 282	2 623	2 429	2 056
Number of shares in issue (000)*	**31 646**	31 540	31 240	30 923	30 754	29 993	29 756
Market capitalisation (Rm)*	**2 682**	2 681	2 062	1 732	2 614	1 620	1 186
Price: earnings ratio (times)	**10,1**	10,9	7,2	8,1	14,3	12,4	10,2
All Share Industrial Index PE ratio (J257)	**17,4**	17,3	15,9	11,4	16,3	15,4	13,3
Dividend yield (%)	**4,3**	4,1	5,8	5,8	2,4	2,8	3,4
All Share Industrial Index dividend yield (J257) (%)	**2,6**	2,1	2,2	3,6	1,9	2,1	2,2
Annual trade in Hudaco shares							
Number of transactions recorded	**7 427**	5 506	4 963	4 966	4 967	3 081	2 919
Volume of shares traded (000)	**9 243**	11 461	15 113	13 355	17 682	12 362	9 923
% of issued shares traded*	**29**	36	48	43	54	41	33
Value of shares traded (Rm)	**757**	822	791	974	1 390	585	369

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

Doing business
with Hudaco

In keeping with the principles of integrated reporting and sustainability, we thought it would be valuable to our stakeholder engagement programme to add a section to this report explaining our business model to potential business sellers as well as to international manufacturers potentially wishing to enter the South African market.

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 generous dividends to shareholders, Hudaco's high cash generating characteristics mean that cash is 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.

Opportunities are generally found through personal relationships, market intelligence and networks developed by the executive management team. We believe that there are many private business owners in South Africa who are aware of Hudaco, like our management style and consider our buyout formula attractive. When the time is right, we hope they will approach us directly with a view to possibly selling their businesses to us.

Our board has agreed on a strategy to pursue acquisitions more aggressively, 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; and
- Concluding a major, R1 billion-plus acquisition, if such an opportunity can be found.

Target criteria

Our acquisition target criteria are businesses that mostly are/have:

- Customers which require value-added distribution
- An identifiable competitive advantage, e.g. 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

(continued on page 38)

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Graham Dunford

"Hudaco favours the collective decision-making style, where feedback and ideas are encouraged. At group level, we are sensitive to preserving an entrepreneurial style of management in a newly acquired business, yet provide the seller with sufficient support so that he gets his life back after the strenuous acquisition process. It is very important for us that the business is not restricted in any way after joining Hudaco and the seller feels that it is business as usual. The only area where there is often change is the monthly management accounts which have to be submitted in the prescribed Hudaco format and on time. I sold my business, Bauer Geared Motors, to Hudaco in 2001. I learned a lot from that experience and I try to ensure that new members of the Hudaco family have as positive an experience as I did and continue to stay on with Hudaco after the earn-out."

Gary Walters

"I started in the Hudaco group as financial director of Hudaco Friction in 1997 becoming managing director in 2002, so I know the group and its philosophies well. I have been a key member of Hudaco's acquisition efforts for the past 6 years, which has given me insight into what it's like to sell one's business and join a listed company. I can relate to a vendor's concerns, which stands me in good stead in negotiations. I understand that one only gets to sell one's business once, whereas for Hudaco this may be just one opportunity among many.

"I think one of the key criteria for the success of our acquisitions team is the application of established benchmarks. For example, a business needs to be a certain size for it to be a stand-alone operation within the group: R100 million turnover is normally the cut-off. Businesses smaller than this would suit a bolt-on strategy from the beginning. Pentagon had a turnover of R60 million and was bolted onto Elvey Security, where it is a very good fit of product and service offering. We find many R50–350 million turnover businesses, but larger acquisitions are more difficult to find.

Lastly, I need to stress the continuity of relationships pre- and post-acquisition. The person you get to know during the negotiation, is the same person you know post-acquisition."

Gilbert da Silva

"One of the key concerns of business sellers is the number of meetings they will have to attend with Hudaco executives. I try to limit this to one monthly meeting to discuss just the key issues. My role has been largely one of facilitation and support – letting the seller get on with his business, running it the way only he knows best. Areas where I believe we can improve are situating new acquisitions not large enough to be a stand-alone business with another business in the group structure, and we need to make more progress in appointing senior black operating managers. The latter is a sector-wide challenge because there is a lack of engineering experience and skills in previously disadvantaged communities. Also, sellers of businesses on earn-outs are reluctant to pay the high salaries necessary to attract scarce black talent. Black mechanical engineers in their 30s are as rare as hens' teeth. One of the key areas in which we try to assist new members of the Hudaco family is providing them with a flow of young black engineers through an existing system of training and apprenticeships."

(See pages 40 and 41 for more details on our bursary and training programmes.)

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Brendon Hall, Pentagon

Pentagon was acquired by the Hudaco group on 1 March 2011 with an earn-out period of three years. "Although we were initially wary of losing our independence and concerned about the burden of compliance in a public company, the integration has been fairly painless. Under the umbrella of the broader Elvey Security group, we are specialists in the provision and installation of survey and access control equipment for large projects such as prisons, stadiums, etc. We do not supply to the end user – rather, we supply to the value-added trade.

"The reasons for selling the business to Hudaco were an absence of BEE credentials, that we were only two shareholders, and an absence of gearing to take on public works programmes which required us to extend credit in advance of being paid by the government. In our line of business we are dependent on many other players receiving payment before they can pay us. The key challenge was to find a partner that could understand our business needs without hamstringing us with corporate requirements. In Hudaco, we found a business partner that was able to provide us with both financing resources and BEE credentials, while preserving our entrepreneurial flair. We have also benefited from the valuable advice from Hudaco executives on financial controls. We are now a Level 4 BEE provider and the largest supplier to the Department of Correctional Services.

"After being bought by Hudaco, we experienced a difficult period while we adapted to new reporting requirements but in the end found the additional information provided us with valuable insights into our business. For the first time in 14 years we had a formal board meeting, and the benefits of having a fresh set of eyes look at our business has given us the courage to execute some of the growth strategies that we have been considering for some time.

"Negotiations with Hudaco took six months to complete, and the final agreement was little changed from the initial offer that Hudaco had presented at the outset. Negotiations were simple, clear and forthright, and a high level of trust was quickly established. We were well advised by our lawyers, as we had been approached before by other BEE companies. What differentiated Hudaco was its understanding of the market through its experience with Elvey. We also believe that the targets set by Hudaco in terms of the earn-out are fair and achievable.

"Hudaco is serious about looking for value in our business in the long-term. This is evident in the group signing service contracts, committing to five-year leases on properties that we occupy, and establishing levels of authority and reporting structures which help, not hinder day-to-day management."

Target criteria *(continued)*

- A presence in non-capital, engineered products
- Selling to markets in southern Africa
- Preferably headquartered in Johannesburg.

Where practicable, Hudaco seeks to:

- Purchase the business not the company
- Enter into service agreements with management
- Include earn-out arrangements
- Purchase for cash, unless the acquisition is large enough to warrant issuing shares.

Acquisition opportunities are evaluated based on the impact on Hudaco earnings per share for the price paid and risk taken. We endeavour to structure transactions to ensure a contribution to group earnings as quickly as possible. PE ratios (or PBITA multiples) are the main guideline for price, with RONA ratios assessed to understand efficiencies.

Filter and Hose Solutions – filtration products for open-cast mining

Our success factors

Below we list what we have learned from our experiences thus far; factors that we believe have contributed to our successes, and will stand us in good stead in future transactions:

- The quality of the personal relationships between Hudaco and the seller of the business is the most important factor for a successful acquisition. We don't impose joint purchasing or tendering, preferring to preserve each business' route to market. 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 listed 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 (i.e. the brand, the staff and the reputation). Hudaco only intervenes when performance requires it.
- We seek to minimise the additional administrative burden placed on the new business in its transition from privately held to part of a listed group. Group executives attend monthly board meetings and assist in familiarising the team with the additional reporting requirements. These are explained during the acquisition process and are contained to those essential for maintaining proper control.
- For sellers seeking an improved BEE rating, we are able to provide maximum points for ownership as required by the Mining Charter and high scores in certain other categories. Each business within Hudaco has its own BEE score. Typically an acquired business could go from level 8 to level 4 overnight as a result of being part of Hudaco.
- We don't impose the same performance targets on each business. The Hudaco group is diverse enough to accommodate differing performance criteria. We recognise that not all of our businesses will achieve the same return on net operating assets.
- We are flexible enough to structure transactions to accommodate the unique circumstances of each vendor. For example, for a seller approaching retirement, part of the earn-out arrangements could involve successfully grooming a successor.

Group services

Services currently handled at head office, and provided free of charge to operating businesses, are tax, company secretarial, treasury (including foreign exchange), insurance, employee benefits and group risk (including internal audit). 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 lower insurance premiums by being part of the Hudaco group.

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 25 to 28.

25,26, 28

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

- Key is market share. 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 frequently not worthwhile.
- South Africa is heavily regulated with unique laws (BEE) not well understood by the international community. Further, the regulatory and compliance landscape is not stable – new BEE requirements for example are now an annual occurrence. This tends to dissuade suppliers from entering the market directly.
- Corruption. South Africa is steadily climbing international corruption tables. Suppliers perceive that rights to conduct business are subject to government patronage and that awarding government business is accompanied by demands for payoffs. For legal and reputational risk reasons international corporations avoid doing business in such environments themselves.
- Long relationships (frequently on a personal level) and a well-established distribution footprint – both of which are hard if not impossible to replicate.

Business unit managers regularly visit suppliers to update them on local developments and agree on future plans. They also do their best to identify where suppliers are (and where they are headed) in terms of world market share pecking order. No one supplier accounts for more than 9% of group sales.

Head office personnel are informed and involved in relationships where the agency accounts for sales above a certain threshold and where its loss could have a significant impact on the group. Where a risk of loss of distribution rights emerges due to suppliers' financial difficulties, progress would be followed closely to establish the future home of the product. If all fails, alternative suppliers/brands will be sought.

Sole distributorships are often not allowed in terms of international competition laws, and therefore cannot be contractually specified, but single agencies can still be the *de facto* situation.

Business model

Hudaco is an importer and distributor of high quality branded industrial consumable products. Two key elements of its success are: only selling products which require value to be added and its 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

Decentralising management has the following advantages:

- Allows faster decision-making
- Empowers employees
- Leads to high standards and disciplines

For more information on what we do and how we add value, refer to page 13.

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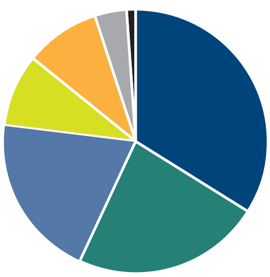
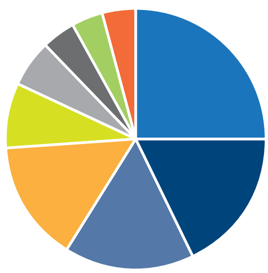
Source of products 2011

Engineering consumables



Engineering consumables	%
South Africa	34
Germany	23
European Union – other	20
USA	9
Asia – other	9
China	4
Other	1

Consumer-related products



Consumer-related products	%
Japan	25
South Africa	18
European Union	16
China	15
USA	8
Canada	6
Korea	4
Singapore	4
Other	4

Building future capacity in Hudaco

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 amongst 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 who we believe have the qualities required for growth to executive level in due course. These people have been given expanded responsibilities and will be 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 a Hudaco Executive Development Programme in recent years. We expect that there will be sufficient candidates to warrant running the course again in 2013, but courses will be run in 2012 for the next levels (see page 41).
- Technical expertise: Critical relationships in the field are with the technical and maintenance teams of our customers. They place the orders for the engineering consumables upon which the bulk of our turnover depends. 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.

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The Makita Training Academy – training end-users in power tool applications

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 benefit 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.

Acting on our commitment to transformation

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

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As an immediate step towards driving transformation in the group, in July 2011 Jonny Masinga was appointed group executive: transformation and human resources. Jonny has more than 12 years' experience in human resources management, organisational development and transformation, most recently with the JD Group as their group transformation executive. His other previous employers include Nampak, Super Group and Equity Aviation. One of his key tasks in Hudaco is to accelerate the appointment of black senior managers.

Our strategy with regard to transformation is largely unchanged from 2010:

- Black representation in management is a core focus for all management appointments. All senior appointments in the group – the designated top 60 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".

Workforce profile

	2011	2010
Total workforce	**2 505**	2 415
Less: non-permanent employees	**36**	105
Total permanent workforce	**2 469**	2 310
Racial and gender profile:		
White males	**674**	596
White females	**361**	348
Black, Indian and Coloured males	**1 149**	1 105
Black, Indian and Coloured females	**285**	261
Occupational level profile:		
Top and senior management	**69**	61
Middle management	**295**	247
Junior management	**884**	816
Non-management	**1 221**	1 186
Management profile by gender:		
Females	**276**	247
Males	**972**	877
Management profile by race:		
White	**802**	715
Black, Indian and Coloured	**446**	409
Non-management profile by gender:		
Females	**370**	362
Males	**851**	824
Non-management profile by race:		
White	**233**	229
Black, Indian and Coloured	**988**	957

Skills development and training

Under the auspices of the group transformation and human resources executive and with the assistance of an internationally recognised business school, the group will be running two development programmes in 2012. The exercise of identifying suitable attendees for the courses proved a valuable one in assessing the talent available within the group. The Management Development Programme will have 35 attendees, of whom 23 are black and the Leadership Development Programme will have 30 attendees of whom 6 will be black. The aim of these programmes is to provide a steady flow of leadership talent for the group, with particular emphasis on developing black leadership. We have already had some success in bringing black people through the ranks and new black leaders into the group. Refer to page 43 for more information.

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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

Dorina Ionescu – Senior lecturer, Mechanical Engineering Technology, University of Johannesburg

"For the past 15 years Hudaco has sponsored a senior lecturer position in the mechanical engineering department, with the objective of retaining well qualified engineers in education. This is an original approach which ensures the students receive quality teaching. The senior lecturer also supervises the master's degree research projects of three younger colleagues, thus increasing the level of staff qualification for the ultimate benefit of students."

product training. 37 staff members successfully completed their courses in 2011 (2010: 38).

Additionally, Hudaco provides financial assistance to the University of Johannesburg with the objective of maintaining the international standard of qualifications awarded by its mechanical engineering department. In terms of a subvention agreement, the salary of the head of the department is supplemented by Hudaco. 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 financially supports the Thuthuka Bursary Fund, which develops and trains black chartered accountants.

During the year under review, group expenditure on employee training amounted to approximately R3 million (2010: R2,6 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 client understands the value of the product, the more loyal they will be.

Rutherford

Our history of importing Makita power tools spans over 45 years. Our senior regional managers have been with us for 25 years or more, and our average salesperson for 12 to 20 years. The average employment history across the business is 20 years. Our staff turnover remains low and we believe that this is due to our regular communication between management and staff and training. Makita academies in Durban, Johannesburg and Cape Town ensure a strong loyalty between our technical teams and the products, and the loyalty programmes for our Team Makita dealers continue to serve us well.

Deutz Diesel Power

At DDP, service excellence is critical to our maintaining our excellent market share as well as minimising repair costs. An engine is expensive to replace, so incorrect technical advice could prove costly. Through our apprenticeship programme we invest three years of in-house training in every aspect of the business – including time in the machine shop, assembly, faultfinding, etc. – before we allow our apprentices to interact with customers. This programme, which includes a lock-in period of five years post-completion, started with three people in 2008, and has grown to eight in 2011. Our first graduates will be placed in the field this year. Nonetheless, we anticipate that the skills shortages in the mining sector in general will continue to have an impact on our expense line as we are forced to increase the salaries of our technical staff in order to compete with the salaries offered by the mining companies.

Elvey Security

Elvey has experienced a higher staff turnover (20% for 2011 compared to 18% for 2010), half of which is due to the loss of technical sales representatives – regrettably our competitors value our well-trained technical sales representatives. Our focus in 2011 was on training to replace these skills. Training towards a BTech qualification is extended to customers for the CCTV, access control and intruder detection disciples, the rationale being that increased product knowledge will translate to greater product loyalty. On-sellers frequently offer Elvey's products at a premium because of our after-sales service and technical support. We mainly focus on installers, who comprise 80% of our sales, and who offer a value-added service to customers through relationships, reputation and performance with a quality product rather than securing short-term business on price.

Talent management

Although senior management are remunerated according to financial performance, they are also responsible for the 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
- 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, i.e. not investing in staff development, is however a far more serious threat to the continuity 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 at risk.

One area we need to improve upon is communicating to our staff the opportunities for lateral movement between companies, 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.

Succession planning

A formal performance management and succession policy is in place and this year the group appointed an executive responsible for transformation and human resources. Solid progress has been made in introducing black people and women into the senior leadership team in that two of our businesses are now headed by black people, three by women and there are two black members of the executive committee. Two black women chartered accountants have been appointed as financial directors at two of the largest businesses in the group. Four up-and-coming managers are being groomed for future promotion by giving them responsibility for more than one business.

Health and safety

Health and safety is important in that we need to protect those assets, i.e. our people, in whom we have invested so heavily and upon whom we depend for our success.

Global Communications – superior technical skills for hi-tech solutions

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 executive committee has approved a Life-threatening Diseases Policy, which has been adopted by all operating divisions. From a benefit point of view, the policy regards HIV/Aids in the same light as other life-threatening diseases but ensures non-discrimination against HIV-positive employees.

Our health and safety record for 2011 shows no fatalities, 17 disabling injuries and a disabling injury frequency rate (DIFR) per 200 000 hours worked of 0.62. Although up on 2010, when there were no fatalities, 3 disabling injuries and a DIFR of 0.12, the injury rate is low compared to industry averages.

Retirement funds

The group only operates defined contribution pension and provident fund schemes for all employees who do not belong to an industry fund (i.e. unionised staff). Risk-related benefits for death in service are insured. The group's funding rate is therefore known with certainty, and there is no under-funded pension scheme risk. Staff members take the risk on retirement of their fund balance being inadequate. In acquired businesses, employees are switched to defined contribution schemes if they were on defined benefit schemes. Scheme assets and liabilities are held in separate, independently administered funds run by trustees in terms of the Pension Funds Act.

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 60 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 ROE and growth in group headline earnings per share.
- Share appreciation rights scheme: This level of remuneration applies to the top 60 or so senior 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 senior management take a medium- to long-term view when acting on matters which may affect business performance and share price.

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Further information on executive remuneration is set out in the report of the Remuneration and Nomination Committee, commencing on page 49.

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, listing 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.

We re-issued the Hudaco Group Code of Ethics in March 2010, to bring it 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.

Corporate Code of Ethics

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*
- *avoiding any conflicts of interest*

The senior leadership team visited Phuthaditjaba Community Centre in Alexandra township, where Hudaco co-sponsored the computer centre.

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 BAFA legislation.

Potential exposure to bribery and corruption is mitigated through internal controls within our businesses, by taking strong action against transgressors, closely scrutinising sales reports, conducting regular stock counts, using undercover security personnel, reviews by group internal audit and encouraging honesty and professionalism in the day-to-day activities of the businesses. The board is not aware of any anti-competitive behaviour or significant non-compliance with legislation during the year.

High standards of business ethics already affect sales to government departments. In Pentagon and Global Communications, for example, there are significant sales opportunities in the government's public infrastructure upgrade programme. Project cycles are typically 12 to 24 months, but with the current levels of corruption in government tenders, delays of between six and 12 months are being incurred as the tender process for each project is scrutinised for possible corrupt practices.

SHEQ systems

All business units are required to be certified against the applicable standards for environmental, health and safety, quality and social risk management i.e. ISO 14001, OHSAS 18001, ISO 9001 and ISO 26 000. Some of our businesses (Bearings International, Deutz Dieselpower, Elvey, Belting Supply Services, Bosworth, Abes Technoseal and Rutherford) have already achieved certification against at least three of the standards. ISO 26 000 (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 2011.

Enterprise development and CSI

In order to maximise points earned on the DTI BBBEE scorecard, Hudaco favours suppliers that have good BEE scorecard ratings and uses Qualifying Small Enterprise (QSE) vendors wherever possible, working closely with them to improve their service delivery.

Each year the board sets aside a specific amount for corporate social investment. Through financial and non-financial contributions, Hudaco is involved with a number of specific socio-economic development 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 2011, Hudaco donated approximately R1 million to a variety of charitable initiatives.

The Hudaco Trading BEE Staff Education Trust, a 5% 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 2011, 37 students have been identified to receive bursaries for the 2012 academic year, of whom 22 are women.

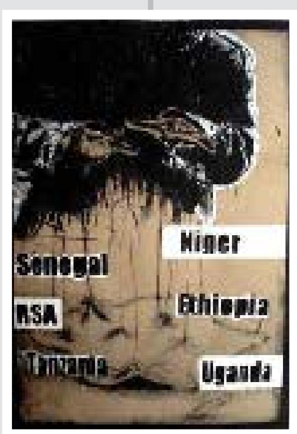
A second trust, The Hudaco Broad-Based BEE Foundation, also a 5% shareholder in Hudaco Trading, has a mandate to undertake or fund broad-based public benefit activities for the benefit of black people. Until such time as the BEE Staff Education Trust is self-sufficient, any dividends received by the Broad-Based BEE Foundation will be applied to meet the objectives of the BEE Staff Education Trust.

Apart from developing a substantial portfolio of artwork that explores his relationship to the Shembe way of life, which is historically connected to his family, Minenkhulu has participated and contributed to a number of projects this year including, Sonke One Man Can Campaign where he worked on a mural in Soweto promoting Voluntary Medical Male Circumcision. He has been involved in an exhibition titled: Voice and Citizenship: A journey through screen-printing, where he participated in a group show and various projects that involved screen-printing as a medium of social expression. Through this project he was exposed to an opportunity to facilitate a screen printing workshop at the Johannesburg Art Gallery (JAG). Minenkhulu also contributed to a group show entitled: Legends of Culture at Right on the Rim Gallery, Arts on Main.

He has volunteered his extra time in the gallery, learning about marketing and cataloguing systems, thereby completing work placement hours for Third Year.

Artist Proof Studio

Minenkhulu Nqoyi
Hudaco-sponsored student
at Artist Proof Studio



How Hudaco is governed

Introduction

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

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 serves 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.

Since the inception of King III in March 2010, Hudaco has endeavoured to apply the principles of King III and has reviewed its practices against these principles. In 2011 the board was 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.

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An internal assessment of the application of King III and levels of compliance is set out on page 57.

Exceptions to King III

The chairman of the board also chairs the remuneration committee. Due to the relatively small size of the company and its board, there is one committee that serves both as the remuneration committee and the nomination committee. The board considers it appropriate for the chairman of the board to preside over its proceedings.

While the head of internal audit reports functionally to the audit committee, he reports administratively to the financial director. The committee believes that the 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. Environmental issues are not material in the group so no empirical data is provided. The entire report is reviewed by the audit and risk management committee and recommended to the board by them.

Board of directors

Board composition

The board comprises seven directors. Four are independent non-executive directors while three are executive directors. A short *curriculum vitae* of each of the directors appears on pages 4 and 5 of the integrated report. Hudaco does not have or allow shadow directors.

4

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 has an appropriate balance, with the majority being independent directors. 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 Stephen Connelly.

The chairman is responsible for leadership of the board and for ensuring that the board plays an effective role. He also ensures appropriate communication with shareholders and facilitates constructive relations between the executives 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 financial director is Clifford Amoils. The audit and risk management committee is satisfied that he has the appropriate expertise and experience for this position.

The role of the board and board procedures

The board directs the group towards and facilitates the achievement of Hudaco's strategy 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, 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 on this page.

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.

Board charter

The board has adopted a 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 duties and responsibilities when acting on behalf of the company. The salient features thereof are set out below:

- role and function of the board
- Detailed responsibilities
- Discharge of duties
- Board composition
- Establishment of committees

Board meeting attendance 2011

	Jan	Mar	Jun	Oct
RT Vice	✔	✔	✔	✔
SJ Connelly	✔	✔	✔	✔
CV Amoils	✔	✔	✔	✔
GR Dunford	✔	✔	✔	✔
GE Gardiner	✔	✔	✔	n/a
JB Gibbon	✔	✔	n/a	n/a
DD Mokgatle	n/a	✔	✔	✔
YKN Molefi	✔	✔	✔	✔
CWN Molope	✔	✔	n/a	n/a
SG Morris	✔	✔	✔	✔
D Naidoo	n/a	✔	✔	*

** Submitted apologies.*

n/a Not applicable

Board appointments

A third of the directors retire by rotation annually. If eligible, available and recommended for re-election by the remuneration and 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 approve the initial appointment of each new director at the first annual general meeting of shareholders following that director's appointment.

The board as a whole selects and appoints directors, including the chief executive and executive directors. A formal and transparent procedure applies to all board appointments, which are subject to confirmation by the shareholders at the annual general meeting. Prior to appointment, potential board appointees are subject to a fit and proper test as required by the Listings Requirements of the JSE Limited.

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 and 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 minutes of committees chaired by independent non-executive directors are submitted to the board for noting and discussion. In addition, 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 and nomination committee

Introduction

The members of the committee for the year under review were: Royden Vice (chairman), Nene Molefi and Stuart Morris, all of whom are independent non-executives. Nene Molefi resigned on 27 October 2011 and was replaced on 23 January 2012 by Dolly Mokgatle.

The chief executive attends meetings by invitation but does not participate in discussions on his own remuneration.

The committee meets generally twice a year, unless additional meetings are required.

The committee chairman reports formally to the board on its proceedings after each meeting and attends the annual general meeting to respond to any questions from shareholders regarding the committee's areas of responsibility.

The committee operates under a board-approved mandate and terms of reference, which were reviewed in 2011. The committee does not assume the functions of management, which remain the responsibility of the executive directors and other members of senior management.

Remuneration and nomination committee meeting attendance 2011

	Jan	Jun
RT Vice	✔	✔
YKN Molefi	✔	*
SG Morris	✔	✔

** Submitted apology.*

Remuneration role

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.

As explained on page 47, the chairman of the board also chairs the remuneration committee.

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The committee's task is to assist the board in ensuring that: the remuneration of directors and executives is fair, responsible and market related; that the disclosure of directors' remuneration is accurate and complete; and general remuneration increases in the group are appropriate.

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-term and long-term rewards that are fair and achievable. In this regard its remuneration policy is aimed at encouraging sustainable performance and at providing incentives to achieve employee performance, measurement, 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 in some cases, the achievement of non-financial targets; 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 is confident 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.

At the annual general meeting held on 24 March 2011, shareholders endorsed, through a non-binding advisory vote to ascertain shareholders' view, Hudaco's remuneration policy and its implementation.

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 2011 by PE Corporate Services SA. No executive receives remuneration outside the band recommended by our consultants.

Short-term performance-related remuneration for the chief executive and the financial director is based on the achievement of earnings growth and a predetermined return on equity.

For senior managers it is linked to a combination of the achievement of appropriate returns on operating assets and annual growth in operating profit in the businesses under their direction. Certain parts of short-term performance related remuneration are capped. Typically, up to 75% of fixed remuneration is paid in full in the year in which it is earned, as is half of the payment for achieving above 75%. The other half is carried forward and paid only if certain conditions have been met in the second year.

At its meeting in January 2011, the committee set parameters for the 2011 incentive schemes. At the January 2012 meeting it reviewed the performance of its businesses and executives and approved the payment of bonuses in accordance with these parameters.

In some cases, incentives are paid for the achievement of non-financial targets.

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. Awards are made every year. Participants in this scheme are paid a bonus, settled in Hudaco shares and equal to the appreciation in the market value of a predetermined 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. Shareholders approved an extension to four years at the annual general meeting in March 2011. 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 normalised headline earnings per share of CPIX plus 5% per annum between the date of the award and the vesting date.

In July 2011, 277 534 share appreciation rights were awarded to executive directors and senior management under the share appreciation bonus scheme. 82

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

Executive directors' emoluments

Details of executive directors' emoluments are set out in note 27.3 to the financial statements. 93

Prescribed officers

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

Most highly paid employees who are not directors ("top earners")

King III recommends that the salaries of the top three earners, excluding executive directors, should be disclosed. These top earners were identified by the value of the total remuneration awarded for the year including the fair value of the share appreciation bonus rights granted. Remuneration and benefits paid and incentives approved in respect of 2011 for the top three earners are set out in note 28 to the financial statements. 94

Directors' and top earners' interests in share appreciation bonus scheme

95 Details can be found in note 28 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. For all executives the notice period is three months but for the finance director it is six 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.

Certain directors have restraint of trade agreements.

Non-executive directors

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 sub-committees. They have service contracts which set out their duties and responsibilities and what is expected from them as non-executive directors.

The non-executive directors' fees are split between an annual retainer and an attendance component. The annual fees paid for the year ended 30 November 2011 were approved by the shareholders on 24 March 2011 before the new South African Companies Act became effective on 1 April 2011. In view of the Act requiring shareholders' approval via a special resolution before directors' remuneration for services as directors is paid, the non-executives will not be paid directors' fees for the period from 1 December 2011 until after approval at the annual general meeting in March 2012.

Non-executive directors do not participate in any of Hudaco's incentive arrangements or the share appreciation bonus scheme.

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 22 March 2012, shareholders will be requested to approve the non-executive directors' fees for the period 1 December 2011 until the date of the next annual general meeting in 2013 as outlined in the notice of the annual general meeting on page 101 of this integrated report. 101

Non-executive directors' fees for the year ended 30 November 2011 are reflected in note 27.3 to the financial statements. 93

Disclosure of interests of directors in share capital of the company

The interests of the non-executive and executive directors in the share capital of the company are disclosed in note 27.1 to the financial statements. 91

Nomination role

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 requirement 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.

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;
- collectively 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 remuneration and nomination committee and then the board. Issues identified by individual board or committee members will be addressed during 2012.

Audit and risk management committee

The members of the committee during the 2011 financial year were John Gibbon, Dolly Mokgatle, Nene Molefi, Nosipho Molope, Stuart Morris and Daisy Naidoo.

John Gibbon and Nosipho Molope retired at the annual general meeting on 24 March 2011, and Stuart Morris assumed the role of chairman of the committee in John Gibbon's stead. Dolly Mokgatle and Daisy Naidoo were appointed as members of the committee on 27 June 2011. Nene Molefi resigned on 27 October 2011.

The audit and risk management committee comprises independent non-executive directors only, as required by the Companies Act, 2008, as amended. All the members have the requisite financial and 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 and representatives from the external and internal auditors attend committee meetings by invitation. The committee functions under written terms of reference which were reviewed in March 2011.

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, 2008, as amended 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;
  - commenting in any way the committee considers appropriate on the financial statements, the accounting practices and the internal financial control of the company;
- 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 Christo Botha for appointment by the shareholders at the forthcoming annual general meeting as the auditor for the 2012 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 2011 were approved and the scope of the proposed audit work was agreed.
- In 2009, the committee adopted a policy for the use of external auditors for non-audit related services giving management permission to engage the external auditors for services beyond the annual audit and of an audit nature up to a maximum fee of R100 000 per instance. Any other non-audit related services to be performed by the external auditors require the approval of the committee on a case by case basis. The overarching criterion for approval will be that the independence of the external auditors should not be impaired through the provision of the services under consideration.
- The committee confirmed the independence of the internal audit function and satisfied itself that internal audit is functioning effectively.
- The internal and external auditors have unrestricted access to this committee. Members of the committee are also afforded the opportunity to meet with the head of internal audit and the external auditors without management being present.
- The committee reviewed the interim and annual financial statements and approved them for submission to the board. This review included a consideration of the estimates, judgements and assumptions set out in note 2 to the financial statements.

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- As at the date of this report, no complaints have been received relating to the accounting practices and internal audit of the company or to the content or auditing of the company's financial statements or its internal financial controls, or to any related matter.
- In terms of paragraph 3.84(h) of the JSE Listings Requirements, the committee has satisfied itself that the expertise and experience of the financial director are appropriate.

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 level. 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 16 and 17 of this report.

16, 17

Audit and risk management committee meeting attendance 2011

	Jan	Jun	Oct
JB Gibbon	✔	n/a	n/a
DD Mokgatle	n/a	✔	✔
YKN Molefi	✔	✔	✔
CWN Molope	✔	n/a	n/a
SG Morris	✔	✔	✔
D Naidoo	n/a	✔	✔

n/a Not applicable

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 divisions; 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 level. Through this framework, operational and financial responsibility is formally and clearly delegated to the chief executive, the financial director and the executives of the principal operating divisions. This is designed to maintain an appropriate control environment within the constraints of board-approved strategies and budgets, whilst 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 coordinated 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 and operations. The key risks faced by the group are described on pages 16 and 17 of this report. The group's annual internal audit plan incorporates the outcomes of the risk management process. The group risk and internal audit department provides a risk identification facilitation role. Management is responsible for managing risks on a daily and operational basis.

16, 17

Litigation and legal

In the normal course of business, Hudaco is subject to various proceedings, actions and claims. These matters are subject to risks and uncertainties that cannot be reliably predicted. The board does not believe that there is any material pending or threatening legal action that may have a material effect on the group's financial position unless SARS takes the view that additional tax is payable in connection with the group's BEE structure (refer to page 32).

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Information technology

Protecting electronic assets is increasingly complex as networks, systems and electronic data expand. Depending on the internet for communication brings additional risk. Ensuring proper system security, data integrity and business continuity is the responsibility of the board, but is overseen by the audit and risk management committee.

The board is of the opinion that the systems of internal control over information technology are adequate and effective and is not aware of any material breakdown in the functioning of the internal control systems during the year. An IT working group, which includes representatives from the larger businesses in the group, has been established to address matters of IT governance.

Executive committee

The members of the committee for the year ended 30 November 2011 were Stephen Connelly (chairman), Clifford Amoils, Bob Cameron-Smith, Ossie Carstens, Gilbert da Silva, Graham Dunford, Jack Edery, Graham Gardiner, Jonny Masinga, Tony Patten and Reana Wolmarans. Jonny Masinga was appointed on 1 July 2011. Graham Gardiner retired on 31 July 2011 and Tony Patten resigned on 31 October 2011.

The executive committee is chaired by the chief executive, Stephen Connelly and meets quarterly, prior to the board meeting. The executive committee's 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 sub-committee which has its own written terms of reference. The chairman of the executive committee reports to the board once a year that it has carried out its mandate.

Executive committee meeting attendance 2011

	Jan	Mar	Jun	Oct
SJ Connelly	✔	✔	✔	✔
CV Amoils	✔	✔	✔	✔
RC Cameron-Smith	✔	✔	✔	✔
JO Carstens	✔	✔	✔	✔
GC da Silva	✔	✔	✔	✔
GR Dunford	✔	✔	✔	✔
J Edery	✔	✔	✔	✔
GE Gardiner	✔	✔	✔	n/a
KJ Masinga	n/a	n/a	n/a	✔
AR Patten	✔	✔	✔	n/a
R Wolmarans	✔	✔	✔	✔

n/a Not applicable

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 divisions; and
- provides the board with a central source of guidance and assistance.

The group secretary also assists the chairman and chief executive in determining the annual board plan and board agendas and in formulating governance and board-related matters.

The certificate required to be signed in terms of section 88(2)(e) of the Act appears on page 59. of the annual financial statements.

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Social and ethics committee

The board approved terms of reference for the social and ethics committee on 27 October 2011. The first meeting of this committee is scheduled to be held in March 2012. The members of the committee will be Daisy Naidoo (Chairman), Clifford Amoils and Graham Dunford.

In line with the Companies Act, 2008 and King III, this committee will oversee and monitor 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
- labour and employment, including skills development.

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 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 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 21 to 23. 21

The Hudaco group has various policies governing communication, relationships and conduct with its stakeholders, which comprise shareholders, employees, customers, suppliers, the community and government.

Nedbank Capital, a division of Nedbank Limited, acted as the company's sponsors 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 meeting. The company's transfer secretaries attend every meeting of shareholders to assist with the recording of shareholders' attendance and to tally the votes. 101

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

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

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

King III Index	
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 three most highly paid employees 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	●

King III Index	
The board receives assurance regarding the effectiveness of the risk management process	●
Sufficient risk disclosure to stakeholders	●
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	◐ [1]
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 directives	●
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	○ [2]

[1] *The company has established an IT Steering Committee which is in the process of establishing a more formal IT governance framework.*
[2] *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, so no empirical data is provided at this stage.*

● Comply ◐ Partially comply ○ Did not comply/under review

Audited annual financial statements

contents

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 Companies Act. Details of the functions of the audit and risk management committee are contained in the section dealing with how the company is governed on pages 52 to 54.

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 consolidated annual financial statements for the year ended 30 November 2011 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

26 January 2012

Certificate by the group secretary

In accordance with the provisions of section 88(2)(e) of the Companies Act (Act 71 of 2008), I certify that, to the best of my knowledge and belief, the company has filed for the financial year ended 30 November 2011 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

26 January 2012

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. 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 auditors' report is set out on page 61.

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 2011, which appear on pages 62 to 100, were approved by the board on 26 January 2012 for publication on 27 January 2012 and are signed on its behalf by:

RT Vice
Chairman

SJ Connelly
Chief executive

26 January 2012

Independent
auditors' report

To the shareholders of Hudaco Industries Limited

Introduction

We have audited the consolidated and separate financial statements of Hudaco Industries Limited, as set out on pages 62 to 100, which comprise the directors' report, the consolidated and separate statements of financial position as at 30 November 2011, the consolidated and separate statements of comprehensive income, changes in equity and cash flows for the year then ended, and the notes, which include 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 representation of these financial statements in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' responsibility

Our responsibility is to express an opinion on these 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 whether the financial statements are free from any material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risk 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 the directors, 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 financial statements present fairly, in all material respects, the consolidated and separate financial position of Hudaco Industries Limited as at 30 November 2011, and its consolidated and separate financial performance 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.

Grant Thornton

Grant Thornton
Chartered Accountants (SA)
Registered Auditors

Per: C Botha
Partner
Chartered Accountant (SA)
Registered Auditor

26 January 2012

137 Daisy Street
Cnr Grayston Drive
Sandown, 2196
Johannesburg

Directors' report

Nature of business

Hudaco is a South African group that imports and distributes branded engineering 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

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

Dividends

R million	2011	2010
Dividend number 48 of 235 cents per share declared on 27 January 2011	80	80
The record date was 11 March 2011 and the dividend was paid on 14 March 2011		
Dividend number 49 of 130 cents per share declared on 27 June 2011	44	95
The record date was 19 August 2011 and the dividend was paid on 22 August 2011		

On 26 January 2012 the directors declared dividend number 50 of 310 cents per share, being the final dividend in respect of the year ended 30 November 2011. The record date will be 9 March 2012 and the dividend will be paid on 12 March 2012 .

Subsidiaries

Particulars of the company's principal subsidiaries are set out on page 100 of the financial statements.

The attributable interest of the company in the aggregate profits and losses after taxation of its subsidiaries for the year ended 30 November 2011 are:

R million	2011	2010
Profits	350	296
Losses	(9)	(59)

Acquisitions and disposals

There were no disposals during the financial year.

The following acquisitions were made:

Acquisition of the trading assets and liabilities of Midrand Special Steels

Hudaco acquired Midrand Special Steels' (a distributor of special round and hexagon steel) trading assets and liabilities with effect from 1 December 2010. The purchase consideration is subject to a maximum of R25 million and includes an initial amount of R10 million paid in cash on 1 February 2011. The balance is payable in three tranches based on actual levels of average profitability achieved in those years. The first tranche, amounting to R5,0 million, is payable on 31 January 2012. The second and third tranches are payable on 31 January 2013 and 2014 respectively.

Acquisition of the trading assets and liabilities of Global Communications and Ikwezi Maintenance and Communications (Global)

With effect from 1 February 2011, Hudaco acquired the trading assets and liabilities of Global (a distributor of professional mobile radio communication equipment and radio systems integrator). The purchase consideration, subject to a maximum of R180 million, is to be settled as follows: an initial amount of R72 million was paid in cash on 28 February 2011, and three tranches are payable in cash on 31 March 2012, 2013 and 2014 based on actual levels of average profitability achieved in each of those years.

Acquisition of the trading assets and liabilities of Pentagon

With effect from 1 March 2011, Hudaco acquired the trading assets and liabilities of Pentagon (a distributor of security equipment). The purchase consideration, subject to a maximum of R66 million, is to be settled as follows: an initial amount of R26 million was paid in cash on 7 June 2011; and three tranches are payable in cash on 30 April 2012, 2013 and 2014, based on actual levels of average profitability achieved for those years.

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 by the company during the period covered by this integrated report.

The shareholders of the following subsidiary companies passed special resolutions in terms of section 45 of the Companies Act, on 9 May 2011 granting the boards of the respective companies general authority to provide direct or indirect financial assistance to any related or inter-related company:

- Hudaco Trading Pty Ltd
- Elvey Group Ltd
- Hudaco Investment Company Ltd
- Barbara Road Investment Pty Ltd

Authority to buy back shares

Annually the directors seek, and obtain, the approval of the shareholders in a general meeting to purchase Hudaco shares. This authority, valid until the following year's annual general meeting and subject to the Listings Requirements of the JSE Limited, allows the Hudaco group to purchase its own shares up to a maximum of 10% of the issued shares, at a price not greater than 10% above the preceding five-day weighted average. Shareholders have been asked to renew this authority at the forthcoming March 2012 annual general meeting.

During the year, Hudaco did not repurchase any of its own shares and continues 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 capital remained unchanged during the year. The issued share capital was increased by R10 583 to R3 415 353 through the issue of 105 833 shares to employees in terms of the share incentive scheme for a total consideration of R2 393 068 (average of R22,61 per share).

Full details of the authorised and issued capital of the company at 30 November 2011 are contained in note 17.1 to the financial statements.

Share-based remuneration schemes

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

Directorate

Information on the directors of the company in office at the date of this report appear on pages 4 and 5.

Ms CWN Molope and Mr JB Gibbon retired at the previous annual general meeting on 24 March 2011. Mr GE Gardiner retired on 31 July 2011 and Mrs YKN Molefi resigned on 27 October 2011.

Mrs DD Mokgatle and Ms D Naidoo were appointed as independent non-executive directors on 24 March 2011.

In terms of the company's memorandum of incorporation, Mrs DD Mokgatle and Ms D Naidoo are required to retire at the forthcoming annual general meeting and Messrs RT Vice and CV Amoils retire by rotation. All of these directors are available, eligible and recommended for re-election. Their profiles appear on pages 4 and 5.

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 incentive and share appreciation bonus schemes are provided in note 27.2 to these financial statements.

Directors' emoluments and details of their service agreements

The emoluments of executive and non-executive directors are determined by the company's remuneration and nomination committee. Further information relating to the remuneration of the directors, together with details relating to option allocations, are set out in note 27.3 to the financial statements.

Secretary

Reana Wolmarans acts as secretary to the company. The address of the secretary is set out on page 107.

Post-balance sheet events

There were no events after year end significant enough to warrant disclosure in this report.

Group statement of comprehensive income

for the year ended 30 November 2011

	Notes	2011 R000	2010 R000
Turnover		3 182 270	2 457 932
Ongoing operations		2 600 886	2 392 692
Operations acquired in 2010 and 2011		581 384	65 240
Cost of sales		1 910 212	1 464 334
Gross profit		1 272 058	993 598
Operating expenses	5	846 193	693 513
Operating profit	5	425 865	300 085
Ongoing operations		319 723	286 312
Operations acquired in 2010 and 2011		106 142	13 773
Impairment of goodwill and intangible assets			22 418
Profit before interest		425 865	277 667
Dividends received on investment in preference shares		200 954	200 954
Interest received		4 555	17 003
Finance costs	6	(246 877)	(235 121)
Profit before taxation		384 497	260 503
Taxation	8	46 653	23 436
Profit for the year		337 844	237 067
Other comprehensive income			
Movement on fair value of cash flow hedges		(746)	214
Total comprehensive income for the year		337 098	237 281
Profit attributable to:			
– shareholders of the group		324 404	234 381
– non-controlling shareholders		13 440	2 686
		337 844	237 067
Total comprehensive income attributable to:			
– shareholders of the group		323 658	234 595
– non-controlling shareholders		13 440	2 686
		337 098	237 281
Headline earnings per share (cents)	9	1 024	800
Diluted headline earnings per share (cents)	9	1 010	784
Basic earnings per share (cents)	9	1 026	745
Diluted basic earnings per share (cents)	9	1 012	730

Group statement of financial position

at 30 November 2011

	Notes	2011 R000	2010 R000
Assets			
Non-current assets		2 939 674	2 698 916
Property, plant and equipment	10	181 983	130 734
Investment in preference shares	11	2 180 966	2 180 966
Goodwill	12	516 107	330 718
Intangible assets	13	49 378	33 694
Deferred taxation	14	11 240	22 804
Current assets		1 597 903	1 347 750
Inventories	15	813 095	662 946
Trade and other receivables	16	616 227	422 840
Cash and cash equivalents		168 581	261 964
Total assets		4 537 577	4 046 666
Equity and liabilities			
Equity		1 524 754	1 313 530
Interest of shareholders of the group		1 493 950	1 286 799
Non-controlling interest		30 804	26 731
Non-current liabilities		2 306 008	2 279 824
Subordinated debenture	18	2 180 966	2 180 966
Finance leases	18	1 615	
Amounts due to vendors of businesses acquired	18	123 427	98 858
Current liabilities		706 815	453 312
Trade and other payables	19	586 329	419 892
Finance leases	18	1 178	
Amounts due to vendors of businesses acquired	18	111 673	27 701
Taxation		7 635	5 719
Total equity and liabilities		4 537 577	4 046 666

Group statement of
cash flows

for the year ended 30 November 2011

	Notes	2011 R000	2010 R000
Cash flow from operating activities			
Operating profit		425 865	300 085
Adjusted for:			
(Decrease)increase in equity compensation reserve		(3 417)	5 202
Depreciation and (profit)loss on disposal of property, plant and equipment		22 847	17 767
Amortisation of intangible assets		12 838	3 936
(Increase)decrease in working capital	22.1	(128 867)	12 372
Cash generated from operations		329 266	339 362
Fair value adjustment of cash flow hedges		(746)	214
Taxation paid	22.2	(46 130)	(49 797)
Net cash from operating activities		282 390	286 779
Cash flow from investing activities			
Additions to property, plant and equipment		(69 068)	(51 757)
Proceeds from disposal of property, plant and equipment		4 947	1 933
Acquisition of new businesses	20	(117 550)	(184 288)
Payments to vendors of businesses acquired	22.3	(46 229)	
Dividends and interest received	22.4	205 509	217 957
Net cash from investing activities		(22 391)	(16 155)
Cash flow from financing activities			
Proceeds from issue of shares		2 393	7 257
Increase in finance leases		2 793	
Finance costs	22.5	(233 718)	(233 516)
Dividends paid	22.6	(124 850)	(120 562)
Net cash from financing activities		(353 382)	(346 821)
Net decrease in cash and cash equivalents		(93 383)	(73 197)
Cash and cash equivalents at beginning of the year		261 964	(335 161)
Cash and cash equivalents at end of the year		168 581	261 964

Group statement of **changes in equity**

for the year ended 30 November 2011

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			
Balance at 30 November 2009	3 375	41 923	58 503	1 064 999	1 168 800	34 258	1 203 058
Comprehensive income for the year			214	234 381	234 595	2 686	237 281
Increase in equity compensation reserve			5 733	(531)	5 202		5 202
Issue of 299 919 shares	30	7 227			7 257		7 257
Dividends (note 21)				(110 349)	(110 349)	(10 213)	(120 562)
Balance at 30 November 2010	3 405	49 150	64 450	1 188 500	1 305 505	26 731	1 332 236
Less: shares held by subsidiary company	(251)		(41)	(18 414)	(18 706)		(18 706)
Net balance at 30 November 2010	3 154	49 150	64 409	1 170 086	1 286 799	26 731	1 313 530
Balance at 30 November 2010	3 405	49 150	64 450	1 188 500	1 305 505	26 731	1 332 236
Comprehensive income for the year			(746)	324 404	323 658	13 440	337 098
Decrease in equity compensation reserve			2 545	(5 962)	(3 417)		(3 417)
Issue of 105 833 shares	10	2 383			2 393		2 393
Dividends (note 21)				(115 483)	(115 483)	(9 367)	(124 850)
Balance at 30 November 2011	3 415	51 533	66 249	1 391 459	1 512 656	30 804	1 543 460
Less: shares held by subsidiary company	(251)		(41)	(18 414)	(18 706)		(18 706)
Net balance at 30 November 2011	3 164	51 533	66 208	1 373 045	1 493 950	30 804	1 524 754

Notes to the

group financial statements

for the year ended 30 November 2011

1. Accounting policies

1.1 Basis of preparation

The 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 AC 500 standards as issued by the Accounting Practices Board and the requirements of the South African Companies Act. These policies have been consistently applied, except for those described in note 3.

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 purchase method. The identifiable assets and liabilities of entities acquired are assessed and included in the statement of financial position at their fair values at dates of acquisition. Significant intercompany transactions and balances are eliminated.

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

For business combinations occurring since 1 January 2010, the requirements of IFRS 3R have been applied. 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 generally measured at their acquisition date fair values.

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 (i.e. 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.

Prior to 1 January 2010, business combinations were accounted for under the previous version of IFRS 3.

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 be 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 management including executive directors. The costs of these arrangements are measured by reference to their fair value at the date on which they were granted. The fair value is 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 shares that are expected to vest, taking into account non-market conditions such as exits from the scheme prior to vesting and operating performance compared to target for vesting. This estimate is 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 period, including the current year.

Upon exercise of share options, the proceeds received net of any directly attributable transaction costs up to the nominal value of the shares issued are allocated to share capital with any excess being recorded as share premium.

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.

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 reassessed 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 leasing liability.

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

Notes to the

group financial statements

for the year ended 30 November 2011

1.14 Investments in subsidiaries

Investments in subsidiaries are carried at cost. 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; plus
- any costs directly attributable to the purchase of the subsidiary.

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.

Goodwill arising on acquisitions before April 2004 has been retained at previous net amounts, which are tested for impairment at least annually.

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. 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 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 and unused STC credits to the extent that it is probable that future taxable profit will be available against which these unused tax losses and unused STC credits 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:

- Investments – where the group has the positive intention and ability to hold the securities to maturity, investments are stated at amortised cost using the effective interest rate method, less any impairment loss, recognised to reflect irrecoverable amounts.
- Trade and other receivables are stated at cost less impairment for doubtful debts.
- Cash and cash equivalents are measured at fair value, based on the relevant exchange rates at the reporting date.
- 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, i.e. 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, i.e. 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 the net income for the period in which they arise.

1.20 Impairment

On an annual basis the group reviews all assets, both tangible and intangible, 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.

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.

1.22 Contingencies

After initial recognition, contingent liabilities recognised in business combinations that are recognised separately 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 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. Our bearings and power transmission and diesel engine businesses supply engineering consumables mainly to mining and manufacturing customers whilst the security, power tool, marine engine, communication equipment and automotive businesses supply products into markets influenced to a great degree by consumer spending. As a result, Hudaco's segment information differentiates between the Engineering Consumables and Consumer Related Products reportable segments.

The measurement policies the group uses for segment reporting under IFRS 8 are the same as those used in its financial statements, except that expenses relating to share-based payments are accounted for on a cash-settled basis in arriving at the operating profit of the two operating segments. In addition, corporate assets which are not directly attributable to the business activities of any operating segment are not allocated to a segment. In the financial periods 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
Investments – note 11
Impairment of goodwill – note 12
Fair value and impairment 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
Contingent liabilities – the assessment, based on expert advice received, to determine whether an item is a contingent or actual liability – note 23
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 adopted the following new standards:

IFRS 9: Financial Instruments

IFRS 9 introduces new requirements for classifying and measuring financial assets that must be applied for financial years commencing on or after 1 January 2015. The Group adopted this standard early. This standard is applied prospectively.

IFRS 9 divides all financial assets that are currently in the scope of IAS 39 into two classifications – those measured at amortised cost and those measured at fair value. Classification is made at the time the financial asset is initially recognised, namely when the entity becomes a party to the contractual provisions of the instrument.

The Available for Sale and Held to Maturity categories currently in IAS 39 are not included in IFRS 9.

As all financial assets have been measured at amortised cost, the early adoption of IFRS 9 had no effect on the classification of financial assets.

IAS 24 Related Party Disclosure (November 2009)

The IASB revised IAS 24 in November 2009 by simplifying the definition of a related party, clarifying its intended meaning and eliminating inconsistencies from the definition and providing a partial exemption from the disclosure requirements for government-related entities.

The fundamental approach to related party disclosure has not changed and the group is in line with the new standard. The replaced standard now requires disclosure of key management personnel compensation in total for each of the following categories (IAS 24.17):

- Short-term employee benefits.
- Post-employment benefits.
- Other long-term benefits.
- Termination benefits.
- Share-based payment benefits.

4. Standards, amendments and interpretations to existing standards that are not yet effective and have not been adopted early by the group

At the date of authorisation of these financial statements, certain new standards, amendments and interpretations to existing standards have been published by the IASB but are not yet effective, and have not been adopted early by the group.

Management anticipates that all of the relevant pronouncements will be adopted in the group's accounting policies for the first period beginning after the effective date of the pronouncement. Information on new standards, amendments and interpretations that are expected to be relevant to the group's financial statements is provided below. Certain other new standards and interpretations have been issued but are not expected to have a material impact on the group's financial statements.

Consolidation Standards

A package of consolidation standards is effective for the year ending 30 November 2014. Information on these new standards potentially relevant to the group is presented below. The group's management has yet to assess the impact of these new and revised standards on the consolidated financial statements.

IFRS 10 Consolidated Financial Statements (IFRS 10)

IFRS 10 supersedes IAS 27 Consolidated and Separate Financial Statements (IAS 27) and SIC 12 Consolidation – Special-purpose Entities. It revised the definition of control together with accompanying guidance to identify an interest in a subsidiary. However, the requirements and mechanics of consolidation and the accounting for any non-controlling interests and changes in control remain the same.

IFRS 12 Disclosure of Interests in Other Entities (IFRS 12)

IFRS 12 integrates and makes consistent the disclosure requirements for various types of investments, including unconsolidated structured entities. It introduces new disclosure requirements about the risks to which an entity is exposed from its involvement with structured entities.

Consequential amendments to IAS 27

IAS 27 now only deals with separate financial statements.

IFRS 13 Fair Value Measurement (IFRS 13)

IFRS 13 does not affect which items are required to be fair-valued, but clarifies the definition of fair value and provides related guidance and enhanced disclosures about fair value measurements. It is applicable for the year ending 30 November 2014. The group's management has yet to assess the impact of this new standard.

Amendments to IAS 1 Presentation of Financial Statements (IAS 1 Amendments)

The IAS 1 Amendments require an entity to group items presented in other comprehensive income into those that, in accordance with other IFRSs: (a) will not be reclassified subsequently to profit or loss and (b) will be reclassified subsequently to profit or loss when specific conditions are met. It is applicable for the year ending 30 November 2013. The group's management expects this may have an impact on presentation of items in other comprehensive income; however, it will not affect the measurement or recognition of such items.

	2011	2010
	R000	R000
5. Operating profit		
Operating expenses comprise:		
Staff costs	605 002	503 832
Property rentals under operating leases	54 354	47 693
Depreciation	23 972	17 617
Amortisation	12 838	3 936
(Profit)loss on disposal of property, plant and equipment	(1 125)	150
Acquisition costs – new businesses	1 172	1 068
Other expenses	208 980	171 707
Less: Allocated to cost of sales	(59 000)	(52 490)
	846 193	693 513
Included in other expenses and cost of sales are:		
(Gain)loss on translation of foreign currency monetary items	(7 477)	3 586
Cost of fair value hedges	13 235	10 108
6. Finance costs		
Interest paid on subordinated debenture	233 516	233 516
Interest on finance leases	202	
Interest imputed on amounts due to vendors of businesses acquired	13 159	1 605
	246 877	235 121
7. Auditors' remuneration		
Audit fees – current year	4 953	4 575
Fees for other services	798	394
	5 751	4 969

	2011	2010
	R000	R000

8. Taxation

8.1 Taxation comprises

	2011 R000	2010 R000
South African normal taxation		
Current year	48 885	42 890
Prior years	(2 832)	789
Deferred taxation		
Current year	(3 990)	(21 851)
Prior years	2 597	(117)
Secondary tax on companies	973	1 038
Foreign normal taxation – current year	1 018	685
Capital gains tax	2	2
Total taxation	46 653	23 436

8.2 Reconciliation of rate of taxation

	%	%
Normal rate	28,0	28,0
Exempt income/foreign rate differential	(16,4)	(22,0)
Disallowable expenditure	0,3	2,3
Secondary tax on companies	0,3	0,4
Prior year (over)under provision	(0,1)	0,3
Effective rate of taxation	12,1	9,0

9. Headline earnings and earnings per share

Calculation of headline earnings

	2011 R000	2010 R000
Profit attributable to shareholders of the group	324 404	234 381
Adjusted for:		
Impairment of goodwill and intangible assets		22 418
Tax effect of impairment of intangible assets		(1 988)
Non-controlling interest in impairment of goodwill and intangible assets		(3 064)
(Profit)loss on disposal of property, plant and equipment after taxation	(689)	101
Headline earnings	323 715	251 848

The calculation of headline and basic earnings per share is based on headline earnings (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 31 617 036 (2010: 31 465 736) shares in issue during the year, taking account of shares held by a subsidiary.

The calculation of diluted earnings per share is based on 32 058 072 (2010: 32 108 737) shares, being the weighted average number of shares in issue of 31 617 036 plus 441 036 deemed free issue shares. This assumes that any bonus due in terms of the share appreciation scheme is settled in shares at the year end price of R84,75 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

group financial statements

for the year ended 30 November 2011

10. Property, plant and equipment

R000	Freehold land and buildings	Plant	Computers	Motor vehicles	Other assets	2011 Total
Cost						
Opening balance	47 326	53 026	43 901	54 711	25 393	224 357
Acquisition of businesses		2 753	983	7 802	2 703	14 241
Additions	31 195	9 877	7 718	14 383	5 895	69 068
Disposals	(50)	(607)	(1 081)	(10 844)	(3 807)	(16 389)
Closing balance	78 471	65 049	51 521	66 052	30 184	291 277
Accumulated depreciation						
Opening balance	3 217	21 692	28 209	26 027	13 478	92 623
Acquisition of businesses		611	224	2 143	1 288	4 266
Depreciation for the year	1 095	4 609	5 516	8 741	4 011	23 972
Disposals		(239)	(975)	(7 856)	(3 497)	(12 567)
Closing balance	4 312	26 673	32 974	29 055	15 280	108 294
Accumulated impairment						
Opening and closing balance	1 000					1 000
Net book value	73 159	38 376	18 547	36 997	14 904	181 983

R000	Freehold land and buildings	Plant	Computers	Motor vehicles	Other assets	2010 Total
Cost						
Opening balance	12 086	44 968	41 055	42 859	23 944	164 912
Acquisition of business		6 217	148	6 835	738	13 938
Additions	35 240	2 413	4 157	8 256	1 691	51 757
Disposals		(572)	(1 459)	(3 239)	(980)	(6 250)
Closing balance	47 326	53 026	43 901	54 711	25 393	224 357
Accumulated depreciation						
Opening balance	3 002	16 373	24 141	19 035	10 524	73 075
Acquisition of business		2 376	120	3 301	301	6 098
Depreciation for the year	215	3 347	5 237	5 669	3 149	17 617
Disposals		(404)	(1 289)	(1 978)	(496)	(4 167)
Closing balance	3 217	21 692	28 209	26 027	13 478	92 623
Accumulated impairment						
Opening and closing balance	1 000					1 000
Net book value	43 109	31 334	15 692	28 684	11 915	130 734
The initial expected useful lives are set within these ranges (years):	25-60	25-30	1-10	5-15	5-10	

As the residual values and remaining useful lives are reassessed on an annual basis, there are assets outside these ranges. Details of freehold land and buildings are kept at the registered office of the group. A copy thereof is available on written request. Motor vehicles with a book value of R2 484 353 (2010: R nil) are encumbered (note 18).

	2011	2010
	R000	R000

11. Investment in preference shares

Unlisted securities

	2011 R000	2010 R000
Business Venture Investments No 1095 Pty Ltd – 100 000 redeemable non-cumulative preference shares. This company is a ring-fenced private company that is managed by and is a wholly owned subsidiary of Cadiz Asset Management (note 24.3). The preference shares, which the group intends to hold to maturity, are redeemable on 31 August 2017 and are pledged as security for the subordinated debenture (note 18). Dividends are received quarterly at a rate of 9,2% nominal annual compounded quarterly	2 180 966	2 180 966
Directors' valuation	2 180 966	2 180 966

12. Goodwill

12.1 Goodwill comprises:

	2011 R000	2010 R000
Goodwill at cost	538 196	352 807
Accumulated impairment	(22 089)	(22 089)
	516 107	330 718

12.2 Movement for the year

	2011 R000	2010 R000
Balance at beginning of the year	330 718	117 246
Adjustments to purchase consideration – Ambro Sales	3 392	3 111
Impairment for the year		(15 319)
Acquisitions during the year	181 997	225 680
	516 107	330 718
The net book value of goodwill has been allocated to the following CGUs:		
Filter and Hose Solutions	225 680	225 680
Global Communications	127 685	
Pentagon	43 088	
Powermite	26 589	26 589
Ambro Sales	25 609	22 217
Abes Technoseal	14 435	14 435
Elvey Security Technologies	12 955	12 955
Varispeed	11 586	11 586
Midrand Special Steels	11 224	
Astore Africa	8 453	8 453
Other	8 803	8 803
	516 107	330 718

Goodwill arising in business combinations is allocated, at acquisition, to the cash-generating units (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 is estimated by using the higher of the value in use method and the fair value less cost to sell. A discounted cash flow forecast is done by management as the basis for determining the estimated recoverable amount. Appropriate growth and discount rates, given the industry and location of the CGU and its operations, are applied to the forecast.

Goodwill arising on the acquisition of Filter and Hose Solutions, Ambro Sales, Global Communications, Pentagon and Midrand Special Steels includes an element of purchase consideration based on the attainment of targeted levels of profitability for the respective earn-out periods. In the case of Ambro Sales, adjustments to the related goodwill are made if interim and final targets are either not met or exceeded. Adjustments to the purchase consideration in all other cases will be debited or credited to profit.

13. Intangible assets

R000	Customer relationships	Trade names	2011 Total
Cost			
Opening balance	37 608	17 553	55 161
Acquisition of businesses	23 841	4 681	28 522
Closing balance	61 449	22 234	83 683
Accumulated amortisation			
Opening balance	8 539	2 429	10 968
Amortisation for the year	10 540	2 298	12 838
Closing balance	19 079	4 727	23 806
Accumulated impairment			
Opening and closing balance	6 083	4 416	10 499
Net book value	36 287	13 091	49 378

R000	Customer relationships	Trade names	2010 Total
Cost			
Opening balance	15 924	12 144	28 068
Acquisition of business	21 684	5 409	27 093
Closing balance	37 608	17 553	55 161
Accumulated amortisation			
Opening balance	5 548	1 484	7 032
Amortisation for the year	2 991	945	3 936
Closing balance	8 539	2 429	10 968
Accumulated impairment			
Opening balance	3 400		3 400
Impairment for the year	2 683	4 416	7 099
Closing balance	6 083	4 416	10 499
Net book value	22 986	10 708	33 694
The initial expected useful lives are set within these ranges (years):	3 – 6	10 – 14	

Intangible assets were acquired as part of the acquisition of businesses. The costs attributable to these assets have been determined by external valuation specialists and management, applying recognised valuation techniques. All intangible assets are tested for impairment annually.

14. Deferred taxation

	2011 R000	2010 R000
14.1 Deferred taxation comprises temporary differences arising from:		
Accelerated capital allowances	(11 716)	(10 027)
Intangible assets	(13 876)	(9 434)
Calculated tax losses	18 651	26 996
Doubtful debt allowances	2 746	2 542
Leave pay accruals	7 184	6 408
Other	8 251	6 319
Net deferred taxation asset	11 240	22 804

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.

	2011	2010
	R000	R000

14. Deferred taxation (continued)

14.2 Movement for the year

	2011 R000	2010 R000
Balance at beginning of the year	22 804	11 641
Arising on acquisitions during the year	(12 957)	(10 805)
Raised during the year	1 393	21 968
	11 240	22 804

15. Inventories

	2011 R000	2010 R000
Merchandise	754 035	611 402
Raw materials and components	34 807	31 283
Work in progress	24 007	19 855
Finished goods	246	406
	813 095	662 946
Cost of inventory recognised as an expense in cost of sales	1 851 212	1 411 844
Inventory that is expected to be sold after more than 12 months	80 000	89 000
Write-down of inventory to net realisable value and losses of inventory	5 495	3 380
Amounts removed during the year from the cash flow hedging reserve and included in the initial cost of inventories	647	861

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.

16. Trade and other receivables

	2011 R000	2010 R000
Trade receivables	585 909	417 456
Allowance for doubtful receivables	(12 195)	(12 291)
Other receivables and prepayments	29 877	17 675
Fair value of forward exchange contracts	12 636	
	616 227	422 840
Per category:		
At amortised cost (2010: Loans and receivables)	603 591	422 840
Derivatives used for hedging	12 636	
	616 227	422 840
Allowance for doubtful receivables:		
Balance at beginning of the year	12 291	12 234
Additional allowance charged to profit	8 686	4 505
Allowance reversed to profit	(3 649)	(3 683)
Allowance utilised	(6 331)	(1 290)
Acquisitions during the year	1 198	525
	12 195	12 291

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 R95,0 million (2010: R65,2 million) were past due but not impaired, being customers of whom there is no recent history of default and are aged as follows:

	2011 R000	2010 R000
Less than 30 days since date due	47 319	34 654
Between 31 and 60 days	24 616	15 792
Between 61 and 90 days	16 803	8 525
More than 90 days	6 230	6 201
	94 968	65 172

	2011	2010
	R000	R000
17. Shareholders' equity		
17.1 Authorised share capital		
40 000 000 (2010: 40 000 000) ordinary shares of 10 cents each	4 000	4 000
17.2 Issued share capital		
34 153 531 (2010: 34 047 698) ordinary shares	3 415	3 405
Less: 2 507 828 (2010: 2 507 828) ordinary shares held by subsidiary company – 7,3%	(251)	(251)
Net 31 645 703 (2010: 31 539 870) ordinary shares	3 164	3 154
17.3 Unissued shares		
4 003 000 (2010: 2 109 000) unissued shares have been made available to the employee share incentive scheme (see note 17.5).		
17.4 Retained income		
Income retained in:		
Company	234 753	331 544
Subsidiary companies	1 138 292	838 542
	1 373 045	1 170 086

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 incentive scheme, in terms of which awards are no longer made, and the share appreciation bonus scheme.

	Number of shares (000)	
	2011	2010
Total specifically authorised to be issued in terms of all schemes[1]	8 000	6 000
Less:		
Shares issued under the share option scheme	3 997	3 891
Beginning of the year	3 891	3 591
During the year	106	300
Shares available to be granted in terms of share appreciation bonus scheme in the future	4 003	2 109
Less:		
Shares required to meet obligations in terms of the share appreciation bonus scheme[2]	579	703
Options granted and deferred delivery shares not yet taken up in the share incentive scheme		109
	3 424	1 297

[1] *Increase approved at AGM on 24 March 2010.*
[2] *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 incentive scheme

The group used a share option scheme as part of the remuneration system for senior employees until 2005. All options issued under this scheme have now been exercised.

17. Shareholders' equity (continued)

17.5 Employee share-based remuneration schemes (continued)

Details of options granted and deferred delivery shares not yet taken up were as follows:

	Weighted average subscription price in cents		Number of shares (000)	
	2011	2010	2011	2010
Rights to shares not taken up at beginning of the year	2 268	2 379	109	409
Forfeited	2 460		(3)	
Shares delivered during the year	2 261	2 419	(106)	(300)
Rights to shares not taken up at end of the year		2 268		109

The following shares were taken up during the year:

	Average share price	Weighted average subscription price	Number of shares
	cents	cents	000
January	8 389	2 460	3
February	8 606	2 254	92
June	8 291	415	1
July	8 032	2 460	10
		2 261	106

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)	
	2011	2010	2011	2010
Rights not taken up at beginning of the year	5 350	5 081	1 898	1 652
Rights granted during the year	8 105	6 809	278	276
Forfeited during the year	(6 342)		(79)	
Rights exercised during the year	(4 549)	(3 975)	(246)	(30)
Rights not taken up at end of the year	5 826	5 350	1 851	1 898
First exercisable in the financial years ending:				
November 2009	3 975	3 975	118	194
November 2010	4 237	4 172	171	238
November 2011	5 173	5 207	296	390
November 2012	5 771	5 769	305	323
November 2013	6 006	5 997	361	392
November 2014	6 282	5 648	340	270
November 2015	7 464	6 809	173	91
November 2016	8 105		87	
	5 826	5 350	1 851	1 898

17. Shareholders' equity (continued)

17.5 Employee share-based remuneration schemes (continued)

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. 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 headline earnings per share during the period exceeding inflation plus 5%.

Cost of share-based payments

Rights in terms of share-based payment schemes granted after 7 November 2002 are to be expensed over their vesting period in terms of IFRS 2. The estimated fair value of these rights was calculated using the Black-Scholes option pricing model with the following inputs:

	Share incentive scheme	Share appreciation bonus scheme					
		Grant 1	Grant 3	Grant 4	Grant 5	Grant 6	Grant 7
Date of grant	17 Mar 2004	7 Jun 2006	15 Feb 2008	18 Nov 2008	1 July 2009	7 Aug 2010	13 Jul 2011
Number of rights granted	1 309 000	793 500	404 767	120 800	578 500	276 333	277 534
Rights forfeited	(3 000)	(72 500)	(86 000)	(20 000)	(35 000)	(17 000)	(16 000)
Rights taken up	(1 306 000)	(283 830)	(19 667)	(50 000)			
Rights still outstanding		437 170	299 100	50 800	543 500	259 333	261 534
Vested rights		437 170	104 537	28 600			
Unvested rights			194 563	22 200	543 500	259 333	261 534
Exercise price (R) – strike price	24,60	39,75[1]	71,45	55,40	50,50	68,09	81,05
Share price at grant date (R)	24,60	47,50	72,00	55,50	55,00	68,99	80,85
Expected volatility (%)	20	25	25	25	28	27	34
Expected dividend yield (%)	5,0	3,8	4,0	4,0	4,0	6,0	5,4
Risk-free rate (%)	10,2	8,2	8,6	8,7	8,6	7,3	7,1
Vesting period (years)	3 to 5	3 to 5	3 to 5	2 to 5	3 to 5	3 to 5	3 to 5
Estimated fair value per right (R)[2]	8,18	13,83	19,83	10,77	16,71	12,84	21,66

[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] *Weighted average for all three tranches, each of which was valued separately.*

	2011 R000	2010 R000
Employee share-based payment expense included in operating profit		
Expense arising from share appreciation bonus scheme	6 535	6 238

17. Shareholders' equity (continued)

17.6 Non-distributable reserves

R000	Special reserve account	Cash flow hedging reserve	Equity compen-sation reserves	Other share-based payments	Total
Balance at 30 November 2009	332	(861)	21 706	37 326	58 503
Increase in equity compensation reserves			5 733		5 733
Movement in fair value of cash flow hedges		214			214
Balance at 30 November 2010	332	(647)	27 439	37 326	64 450
Less: shares held by subsidiary company	(41)				(41)
Net balance at 30 November 2010	291	(647)	27 439	37 326	64 409
Balance at 30 November 2010	332	(647)	27 439	37 326	64 450
Increase in equity compensation reserves			2 545		2 545
Movement in fair value of cash flow hedges		(746)			(746)
Balance at 30 November 2011	332	(1 393)	29 984	37 326	66 249
Less: shares held by subsidiary company	(41)				(41)
Net balance at 30 November 2011	291	(1 393)	29 984	37 326	66 208

18. Non-current liabilities

	2011 R000	2010 R000
Unlisted, subordinated debenture issued by Hudaco Trading Pty Ltd, a subsidiary, on 1 August 2007. The debenture carries a fixed interest rate of 10,7% nominal annual compounded quarterly. Interest is paid quarterly in arrears and the capital is repayable in full on 31 August 2017. The debenture is secured by a pledge over the group's investment in preference shares (note 11)	2 180 966	2 180 966
Finance lease agreements with various financial institutions. Interest rates vary between 6,2% and 9,0% per annum. Monthly repayments including interest amount to R88 894	2 793	
Estimated amount due to the vendors of Midrand Special Steels acquired in 2011. The amount includes imputed interest at 5,2% per annum. The amount finally payable is subject to adjustment based on earnings of the business, up to November 2013, which will be debited or credited to profit when the adjustment is determined	13 084	
Estimated amount due to the vendors of Global Communications acquired in 2011. The amount includes imputed interest at 5,2% per annum. The amount finally payable is subject to adjustment based on earnings of the business, up to November 2013, which will be debited or credited to profit when the adjustment is determined	101 819	
Estimated amount due to the vendors of Pentagon acquired in 2011. The amount includes imputed interest at 5,2% per annum. The amount finally payable is subject to adjustment based on earnings of the business, up to February 2014, which will be debited or credited to profit when the adjustment is determined	30 386	
Estimated amount due to the vendors of Filter and Hose Solutions acquired in 2010. The amount includes imputed interest at 5,5% per annum. The amount finally payable is subject to adjustment based on earnings of the business, up to August 2013, which will be debited or credited to profit when the adjustment is determined	83 833	118 407
Estimated amount due to the vendors of Ambro Sales acquired in 2008. The amount includes imputed interest at 11,5% per annum. The amount finally payable is subject to adjustment based on earnings of the business, up to February 2012, which will be debited or credited to goodwill	5 978	8 152
Total interest-bearing liabilities	2 418 859	2 307 525
Less: payable within 12 months	112 851	27 701
	2 306 008	2 279 824

	2011	2010
	R000	R000

19. Trade and other payables

	2011	2010
Trade payables	384 497	284 977
Fair value of forward exchange contracts		7 237
Other payables	201 832	127 678
	586 329	419 892
Included in other payables are payroll and other accruals.		
Per category:		
Measured at amortised cost	586 329	412 655
Derivatives used for hedging		7 237
	586 329	419 892

20. Acquisition of new businesses

R000	Midrand Special Steels	Global Communi-cations	Pentagon	Total 2011	Total 2010
Effective date	1 Dec 2010	1 Feb 2011	1 Mar 2011		
Fair value of assets acquired:					
Plant and equipment	2 540	6 849	586	9 975	7 840
Goodwill	11 224	127 685	43 088	181 997	225 680
Intangible assets	2 224	20 298	6 000	28 522	27 093
Borrowings	(1 243)	(8 155)	(530)	(9 928)	(2 116)
Inventories	7 637	31 633	4 605	43 875	33 181
Trade and other receivables	9 501	40 560	20 712	70 773	38 613
Trade and other payables	(8 483)	(42 088)	(15 845)	(66 416)	(20 517)
Taxation					5
Deferred taxation	(1 005)	(8 589)	(3 363)	(12 957)	(10 805)
Net operating assets acquired	22 395	168 193	55 253	245 841	298 974
Borrowings assumed	1 243	8 155	530	9 928	2 116
Balance owed to vendors	(12 443)	(96 523)	(29 253)	(138 219)	(116 802)
Net cash outflow on acquisitions	11 195	79 825	26 530	117 550	184 288

	2011 R000	2010 R000
Profit after tax since acquisition date included in the consolidated results for the year	29 924	9 176
Turnover since acquisition date included in the consolidated results for the year	321 585	65 240
Group profit after tax had the business combinations been included for the entire year	343 546	240 602
Group turnover had the business combinations been included for the entire year	3 224 188	2 618 215

21. Dividends

	2011	2010
Dividend number 48 of 235 cents per share declared on 27 January 2011	80 237	79 973
The record date was 11 March 2011 and the dividend was paid on 14 March 2011		
Dividend number 49 of 130 cents per share declared on 28 June 2011	44 400	39 153
The record date was 19 August 2011 and the dividend was paid on 22 August 2011		
Dividends paid to subsidiary company	(9 154)	(8 777)
	115 483	110 349

On 26 January 2012 the directors declared dividend number 50 of 310 cents per share, being the final dividend in respect of the year ended 30 November 2011. The record date will be 9 March 2012 and the dividend will be paid on 12 March 2012. This dividend has not been included as a liability in these financial statements.

	2011	2010
	R000	R000

22. Notes to the statement of cash flows

22.1 (Increase)decrease in working capital

	2011 R000	2010 R000
Increase in inventories	(106 274)	(32 815)
Increase in trade and other receivables	(122 614)	(28 304)
Increase in trade and other payables	100 021	73 491
	(128 867)	12 372

22.2 Taxation paid

	2011 R000	2010 R000
Amounts owed at beginning of the year	(5 719)	(10 117)
Current tax charge	(48 885)	(42 890)
Prior year over(under) provision	2 832	(789)
Secondary tax on companies	(973)	(1 038)
Foreign tax charge	(1 018)	(685)
Capital gains tax	(2)	(2)
Acquired during the year		5
Amounts owed at end of the year	7 635	5 719
	(46 130)	(49 797)

22.3 Payments to vendors of businesses acquired

	2011 R000	2010 R000
Amounts owed at beginning of the year	(126 559)	
Interest imputed on amounts owed	(13 159)	
Acquisitions during the year	(138 219)	
Adjustment to purchase price	(3 392)	
Amounts owed at end of the year	235 100	
	(46 229)	

22.4 Dividends and interest received

	2011 R000	2010 R000
Dividends	200 954	200 954
Interest	4 555	17 003
	205 509	217 957

22.5 Finance costs

	2011 R000	2010 R000
Finance costs	(246 877)	(235 121)
Imputed on amounts due to vendors of businesses acquired	13 159	1 605
	(233 718)	(233 516)

22.6 Dividends paid

	2011 R000	2010 R000
To shareholders of the group	(115 483)	(110 349)
To non-controlling shareholders	(9 367)	(10 213)
	(124 850)	(120 562)

	2011	2010
	R000	R000
23. Commitments and contingencies		
23.1 Operating lease arrangements		
The group has entered into numerous operating leases in respect of fixed property used for warehousing, offices and branch trading facilities. The leases generally have an initial three- to five-year term with options to renew at market-related rentals. Annual escalations ranging from 4% to 9% are common to all leases. No leases contain contingent rent provisions or covenants.		
At the reporting date the group had outstanding commitments under these operating leases in respect of fixed properties which fall due as follows:		
Within one year	45 570	47 716
Payable in second to fifth years	70 583	68 675
Payable thereafter	7 266	
	123 419	116 391
23.2 Property, plant and equipment		
The group has budgeted to spend R38 million to acquire property, plant and equipment in 2012, none of which is committed or contracted for. Total capital expenditure will be financed by net cash flow from operations and the utilisation of cash balances.		
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		
Financial assets by class:		
Investment in preference shares	2 180 966	2 180 966
Trade receivables	573 714	405 165
Other receivables and prepayments	29 877	17 675
Fair value of forward exchange contracts	12 636	
Cash and cash equivalents	168 581	261 964
	2 965 774	2 865 770
Financial assets by category:		
At amortised cost (2010: Held to maturity)	2 180 966	2 180 966
At amortised cost (2010: Loans and receivables)	772 172	684 804
Derivatives used for hedging	12 636	
	2 965 774	2 865 770

	2011	2010
	R000	R000

24. Financial instruments (continued)

24.1 Summary of financial instruments (continued)

24.1.1 Carrying value of financial instruments (continued)

	2011 R000	2010 R000
Financial liabilities by class:		
Subordinated debenture	2 180 966	2 180 966
Finance leases	2 793	
Amounts due to vendors of businesses acquired	235 100	126 559
Trade payables	384 497	284 977
Other payables	201 832	127 678
Fair value of forward exchange contracts		7 237
	3 005 188	2 727 417
Financial liabilities by category:		
At amortised cost	3 005 188	2 720 180
Derivatives used for hedging		7 237
	3 005 188	2 727 417

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

24.1.2 Fair value of financial instruments

	2011 R000	2010 R000
Financial assets by class:		
Investment in preference shares – including related put option	2 301 020	2 325 686
Trade receivables	573 714	405 190
Other receivables	29 877	17 650
Cash and cash equivalents	168 581	261 964
Fair value of forward exchange contracts	12 636	
	3 085 828	3 010 490
Financial liabilities by class:		
Subordinated debenture	1 992 394	2 071 834
Amounts due to vendors of businesses acquired	235 100	126 559
Trade payables	384 497	284 977
Other payables	201 832	127 678
Fair value of forward exchange contracts		7 237
	2 813 823	2 618 285

All financial instruments are carried at fair value or amounts that approximate fair value, except for the investment in preference shares, the debenture and amounts due to vendors of businesses acquired, which are carried at amortised cost. The fair values for cash and cash equivalents, receivables and payables approximate their carrying values due to the short-term nature of these instruments. The fair values have been determined by using available market information and appropriate valuation methodologies.

24. Financial instruments (continued)

24.2 Market risk

24.2.1 Foreign currency risk

(i) Trade commitments

The group imports more than 60% of its cost of sales 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 2011 the group had entered into the following forward exchange contracts relating to forecast purchase transactions, i.e. 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	Contract rate	Rand equivalent
		000		R000
Japanese Yen	9,53	163 911	9,47	17 314
US Dollar	8,15	2 621	8,31	21 776
Pound Sterling	12,79	365	12,72	4 645
Euro	10,97	4 172	11,18	46 629
Total cost of contracts				90 364
Fair value – Rand equivalent of the above contracts at year end spot rates				88 971
Loss recognised directly in equity on import orders (note 17.6)				(1 393)

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.

(ii) Other foreign currency assets

The following table represents the extent to which the group has unhedged monetary assets and liabilities in currencies other than the group companies' functional currency. Based on the net exposure, it is estimated that a simultaneous 10% change in all foreign currency exchange rates against the Rand (the functional currency) will impact the fair value of the net monetary assets of the group by R2,2 million (2010: R3,8 million), of which R1,6 million (2010: R3,3 million) will impact profit or loss after taxation.

	2011	2010
	R000	R000
Net foreign currency monetary assets		
Functional currency of group operation	Pound Sterling	Pound Sterling
Japanese Yen	12 796	9 956
US Dollar	236	8 339
Euro	9 277	7 742
	22 309	26 037

24. Financial instruments (continued)

24.2 Market risk (continued)

24.2.2 Interest rate risk

The group may use bank finance to purchase inventories and has been reluctant to fix interest rates for extended periods on borrowings that finance working capital. Conversely, the interest rate was fixed on the subordinated debenture, which was issued in the August 2007 group restructure, as the group did not wish to be exposed to interest rate risk for the 10 years that this debenture would be outstanding.

The interest rate profile of long-term borrowings is as follows:

	Year of repayment	Interest rate	2011	2010
		%	R000	R000
Subordinated debenture	2017	10,7	2 180 966	2 180 966
Finance leases	2012 – 2015	6,2 – 9,0	2 793	
Amounts due to vendors of businesses acquired				
– Midrand Special Steels	2012 – 2013	5,2	13 084	
– Global Communications	2012 – 2013	5,2	101 819	
– Pentagon	2012 – 2014	5,2	30 386	
– Filter and Hose Solutions	2012 – 2013	5,5	83 833	
– Ambro Sales	2012	11,5	5 978	

24.3 Credit risk

Credit risk is present in trade receivables, short-term cash investments and investment in preference shares.

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 group holds a put option (guaranteed by Morgan Stanley) to mitigate the credit risk exposure on the investment in preference shares. Due to the arrangements embodied in this instrument it has been assessed to have a zero fair value for accounting purposes, both on initial recognition and at year end. It nevertheless provides significant credit risk mitigation.

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

	2011	2010
	R000	R000
Investment in preference shares	2 180 966	2 180 966
Trade receivables	573 714	405 165
Other receivables and prepayments	29 877	17 675
Fair value of forward exchange contracts	12 636	
Cash and cash equivalents	168 581	261 964
	2 965 774	2 865 770

24. Financial instruments (continued)

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 2011 were R406 million.

There are a number of plans in place to deal with the redemption of the subordinated debenture in 2017 under different scenarios, none of which exposes the group to a significant liquidity risk. There is no restriction on borrowing powers in terms of the memorandum of incorporation and at 30 November 2011 the group's banking facilities substantially exceeded its forecast requirements for the forthcoming year.

The maturity profile of financial liabilities is as follows:

	Total owing	Repayable during the year ending 30 November		
	2011	2012	2013 to 2016	2017 onwards
	R000	R000	R000	R000
Subordinated debenture	2 180 966			2 180 966
Amounts due to vendors of businesses acquired	235 100	111 673	123 427	
Finance leases	2 793	1 178	1 615	
Trade payables	384 497	384 497		
Other payables	201 832	201 832		

	2011	2010
	R000	R000
24.5 Fair value of financial instruments		
The profit(loss) arising on the fair value adjustment on all forward exchange contracts is set out below:		
Cash flow hedges (note 24.2.1)	(1 393)	(647)
Fair value hedges (on contracts of R354 million at year end spot rates)	14 029	(6 590)
	12 636	(7 237)

The book value of all non-derivative financial instruments approximates their fair value at 30 November 2011.

24.6 Capital management

The group seeks to ensure that it and each 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 unsubordinated debt at no higher than 50% of shareholders' equity.

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

In 2007 the group raised subordinated debt within its major subsidiary to facilitate the introduction of Black Economic Empowerment shareholders. This was an unique event and this subordinated debenture will form part of the group capital structure through to its redemption in 2017.

Importantly, 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 both subordinated and unsubordinated debt less interest and preference dividends 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. Contributions to retirement funding during the year amounted to R29 810 000 (2010: R23 156 000). 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.

26. Post-retirement medical costs

The group has no liability for post-retirement medical costs for current or future pensioners.

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	
	2011	2010	**2011**	2010
RT Vice	**4 000**	4 000		
SJ Connelly	**308 967**	308 967	**1 680**	1 680
CV Amoils			**7 500**	7 500
GR Dunford	**10 000**	10 000		
GE Gardiner		76 905		
	322 967	399 872	**9 180**	9 180

The directors held no indirect interests in the shares of the company. YKN Molefi, who resigned as a director on 27 October 2011, holds 0,83% of the share capital of Hudaco Trading Pty Ltd.

The shareholdings above have not changed between 30 November 2011 and the date of the notice of the annual general meeting.

Notes to the group financial statements

for the year ended 30 November 2011

27. Directors' interests and remuneration (continued)

27.2 Directors' interests in share appreciation bonus scheme

The directors have the following rights in terms of the share appreciation bonus scheme:

	Outstanding rights beginning of year	Strike price	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]
		R							R000
2011									
SJ Connelly	492 500		58 000		550 500				
	175 000	39,75			175 000	06 Jul '06	3	Jul '09-Jul '15	
	100 000	71,45			100 000	15 Feb '08	3	Feb '11-Feb '17	
	155 000	50,50			155 000	01 Jul '09	3	Jul '12-Jul '18	
	62 500	68,09			62 500	07 Aug '10	3	Aug '13-Aug '19	
		81,05	58 000		58 000	13 Jul '11	3	Jul '14-Jul '20	
CV Amoils	95 000		27 000		122 000				
	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	
		81,05	27 000		27 000	13 Jul '11	3	Jul '14-Jul '20	
GR Dunford	155 500		26 000		181 500				
	65 000	39,75			65 000	06 Jul '06	3	Jul '09-Jul '15	
	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	
		81,05	26 000		26 000	13 Jul '11	3	Jul '14-Jul '20	
GE Gardiner	71 333			71 333					2 770
	20 000	39,75		20 000		06 Jul '06	1		896
	11 333	71,45		11 333		15 Feb '08	1		154
	40 000	50,40		40 000		18 Jul '08	2		1 720
	814 333		111 000	71 333	854 000				2 770
2010									
SJ Connelly	430 000		62 500		492 500				
	175 000	39,75			175 000	06 Jul '06	3	Jul '09-Jul '13	
	100 000	71,45			100 000	15 Feb '08	3	Feb '11-Feb '15	
	155 000	50,50			155 000	01 Jul '09	3	Jul '12-Jul '16	
		68,09	62 500		62 500	07 Aug '10	3	Aug '13-Aug '17	
CV Amoils	65 000		30 000		95 000				
	65 000	50,50			65 000	01 Jul '09	3	Jul '12-Jul '16	
		68,09	30 000		30 000	07 Aug '10	3	Aug '13-Aug '17	
GR Dunford	130 000		25 500		155 500				
	65 000	39,75			65 000	06 Jul '06	3	Jul '09-Jul '13	
	20 000	71,45			20 000	15 Feb '08	3	Feb '11-Feb '15	
	45 000	50,50			45 000	01 Jul '09	3	Jul '12-Jul '16	
		68,09	25 500		25 500	07 Aug '10	3	Aug '13-Aug '17	
GE Gardiner	71 333				71 333				
	20 000	39,75			20 000	06 Jul '06	1	Jul '09-Jul '11	
	11 333	71,45			11 333	15 Feb '08	1	Feb '11-Jul '12	
	40 000	55,40			40 000	18 Jul '08	2	Jul '10-Jul '12	
	696 333		118 000		814 333				

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. 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 heps during the period, of CPIX plus 5%.

[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)

27.3 Directors' emoluments

Non-executive directors	Base fee	Attendance fee	Special committee fees	Total remuneration
R000				
2011				
RT Vice	585	80		665
JB Gibbon[(1)]	65	45		110
YKN Molefi[(2)]	170	100		270
DD Mokgatle[(3)]	89	65		154
CWN Molope[(1)]	56	40		96
SG Morris	280	100		380
D Naidoo[(3)]	89	50		139
	1 334	480		1 814
2010				
RT Vice	265	60	55	380
JB Gibbon	150	70	22	242
YKN Molefi	112	50		162
CWN Molope	115	25	15	155
SG Morris	135	65	66	266
	777	270	158	1 205

[(1)] Retired/resigned 24 March 2011.

[(2)] Resigned 27 October 2011.

[(3)] Appointed 24 March 2011.

Executive directors Paid by subsidiaries for managerial services	Fixed remuneration	Retirement fund contributions	Other benefits	Performance-related remuneration	Total before share-based payments	Share-based payments[(1)]	Total remuneration
R000							
2011							
SJ Connelly	2 880	354	475	4 134	7 843	1 476	9 319
CV Amoils	1 551	195	299	2 279	4 324	429	4 753
GR Dunford	1 619	234	219	2 082	4 154	454	4 608
GE Gardiner[(2)]	1 017	132	731	1 200	3 080	124	3 204
	7 067	915	1 724	9 695	19 401	2 483	21 884
2010							
SJ Connelly	2 638	325	441	2 000	5 404	1 480	6 884
CV Amoils	1 402	179	296	700	2 577	308	2 885
GR Dunford	1 394	177	136	639	2 346	418	2 764
GE Gardiner	1 437	192	294	1 200	3 123	435	3 558
	6 871	873	1 167	4 539	13 450	2 641	16 091

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

[(2)] Retired on 31 July 2011.

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 a 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 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 100.

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.

	2011	2010
	R000	R000
Compensation of key management personnel		
Short-term employee benefits	35 928	24 360
Share-based payments[1]	3 906	4 088
	39 834	28 448

Set out below is the remuneration of the three highest earners for the respective years, who are not directors:

	Fixed remun-eration	Retirement fund contri-butions	Other benefits	Performance-related remune-ration	Total before share-based payments	Share-based payments[1]	Total remune-ration
R000							
2011							
Employee 1	1 226	168	280	2 405	4 079	153	4 232
Employee 2[2]	1 176	149	2 233		3 558	321	3 879
Employee 3	1 241	156	296	857	2 550	266	2 816
	3 643	473	2 809	3 262	10 187	740	10 927
2010							
Employee 1	1 028	136	261	993	2 418	296	2 714
Employee 2	977	138	239	833	2 187	250	2 437
Employee 3	940	132	275	484	1 831	350	2 181
	2 945	406	775	2 310	6 436	896	7 332

[1] The fair value of options and share appreciation bonus rights granted is the annual expense determined in terms of IFRS 2.
[2] Includes R2 million termination benefits under other benefits.

28. Related party transactions (continued)

Share appreciation bonus scheme

The top earners have the following rights in terms of the share appreciation bonus scheme:

	Outstanding rights beginning of year	Strike price	Granted during the year	Taken up during the year	Forfeited	Outstanding rights end of year	Date granted	Number of tranches	Date benefit to be determined	Gains on rights taken up[1]
		R								R000
2011										
Employee 1	44 467			11 000		33 467				506
	22 000	39,75		11 000		11 000	6 Jul '06	2	Jul '09-Jul '14	506
	12 467	71,45				12 467	15 Feb '08	2	Feb '11-Nov '14	
	10 000	50,50				10 000	1 Jul '09	1	Jul '12-Nov '14	
Employee 2	99 000		16 000	35 667	79 333					1 187
	30 000	39,75		30 000			6 Jul '06	3		1 153
	17 000	71,45		5 667	11 333		15 Feb '08	3		34
	35 000	50,50			35 000		1 Jul '09	3		
	17 000	68,09			17 000		7 Aug '10	3		
		81,05	16 000		16 000		13 Jul '11	3		
Employee 3	61 300		17 000			78 300				
	22 800	55,40				22 800	15 Feb '08	3	Feb '11-Feb '17	
	20 000	50,50				20 000	1 Jul '09	3	Jul '12-Jul '18	
	18 500	68,09				18 500	7 Aug '10	3	Aug '13-Aug '19	
		81,05	17 000			17 000	13 Jul '11	3	Jul '14-Jul '20	
	204 767		33 000	46 667	79 333	111 767				1 693
2010										
Employee 1	96 000					96 000				
	50 000	39,75				50 000	6 Jul '06	3	Jul '09-Jul '13	
	21 000	71,45				21 000	15 Feb '08	3	Feb '11-Mar '14	
	25 000	50,50				25 000	1 Jul '09	2	Jul '12-Mar '14	
Employee 2	55 467					55 467				
	22 000	39,75				22 000	6 Jul '06	2	Jul '09-Jul '12	
	12 467	71,45				12 467	15 Feb '08	2	Feb '11-Aug '13	
	11 000	55,40				11 000	18 Nov '08	1	Jul '12-Aug '13	
	10 000	50,50				10 000	1 Jul '09	1	Jul '12-Aug '13	
Employee 3	110 000		16 500			126 500				
	55 000	39,75				55 000	6 Jul '06	3	Jul '09-Jul '13	
	20 000	71,45				20 000	15 Feb '08	3	Feb '11-Feb '15	
	35 000	50,50				35 000	1 Jul '09	3	Jul '12-Jul '16	
		68,09	16 500			16 500	7 Aug '10	3	Aug '13-Aug '17	
	261 467		16 500			277 967				

[1] *This represents the difference between the market price on the date the shares were delivered and the strike price.*

28. Related party transactions (continued)

Directors

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

	2011	2010
	R000	R000
Interests in contracts and transactions with key management personnel		
Goods sold to key management at staff prices		90
Goods bought from companies controlled by key management	132	31
Goods sold to companies controlled by key management	381	369

GR Dunford, an executive director as well as a member of the executive committee, is a 90% shareholder of the landlord of premises occupied by Bauer and a Powermite branch. Rental paid in respect of Bauer amounted to R1 176 260 (2010: R1 067 460). This lease expires on 31 December 2016. Rental paid in respect of the Powermite branch amounted to R349 070 (2010: R321 828). This lease is due to expire on 29 February 2012.

Unless specifically disclosed, these transactions occurred under terms that are consistent with those entered into with third parties.

29. Segment information

R million	Group 2011	Group 2010	Head office, shared services and eliminations 2011	Head office, shared services and eliminations 2010	Engineering consumables 2011	Engineering consumables 2010	Consumer-related-products 2011	Consumer-related-products 2010
Statement of net income								
Turnover	**3 182**	2 458	**(11)**	(8)	**2 187**	1 750	**1 006**	716
– Ongoing operations	**2 601**	2 393	**(11)**	(8)	**1 852**	1 685	**760**	716
– Operations acquired in 2010 and 2011	**581**	65			**335**	65	**246**	
EBITDA	**462**	322	**(10)**	(23)	**298**	224	**174**	121
Depreciation less recoupments	**23**	18	**1**		**16**	14	**6**	4
Amortisation of intangible assets	**13**	4			**8**	4	**5**	
Operating profit	**426**	300	**(11)**	(23)	**274**	206	**163**	117
– Ongoing operations	**320**	286	**(11)**	(23)	**210**	192	**121**	117
– Operations acquired in 2010 and 2011	**106**	14			**64**	14	**42**	
Impairment of goodwill and intangible assets		22				22		
Profit before interest and dividends received	**426**	278	**(11)**	(23)	**274**	184	**163**	117
Statement of financial position								
Property, plant and equipment	**182**	131	**1**		**154**	113	**27**	18
Goodwill	**517**	331		(1)	**318**	303	**199**	29
Intangible assets	**49**	34			**28**	34	**21**	
Deferred taxation – net	**12**	23	**25**	31	**(7)**	(11)	**(6)**	3
Inventories	**813**	663			**588**	509	**225**	154
Trade and other receivables	**616**	423	**11**		**373**	302	**232**	121
Trade and other payables	**(587)**	(420)	**(18)**	(15)	**(331)**	(273)	**(238)**	(132)
Taxation	**(9)**	(6)	**61**	39	**(42)**	(25)	**(28)**	(20)
Net operating assets	**1 593**	1 179	**80**	54	**1 081**	952	**432**	173
Additional information								
Average net operating assets	**1 469**	948	**10**	38	**1 093**	728	**366**	182
Capital expenditure	**69**	52	**2**		**62**	49	**5**	3
Operating profit margin (%)	**13,4**	12,2			**12,5**	11,8	**16,2**	16,3
Return on average net operating assets (%)	**29,0**	31,6			**25,1**	28,3	**44,5**	64,3
Number of employees	**2 505**	2 415	**21**	22	**1 843**	1 853	**641**	540

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 and dividends received is centralised.

Company
financial statements

	2011	2010
	R000	R000

Hudaco Industries Limited
Statement of financial position
at 30 November 2011

	2011 R000	2010 R000
Assets		
Non-current assets		
Interest in subsidiaries (note 1)	291 457	385 219
Current assets	286	308
Receivables	286	301
Cash and cash equivalents		7
Total assets	291 743	385 527
Equity and liabilities		
Shareholders' equity	290 033	384 431
Current liabilities		
Payables and taxation	1 710	1 096
Total equity and liabilities	291 743	385 527

Statement of comprehensive income
for the year ended 30 November 2011

	2011 R000	2010 R000
Dividends received from subsidiaries	30 645	192 000
Interest received	53	
Operating costs	2 337	2 174
Profit before taxation	28 361	189 826
Taxation – South African normal tax	515	212
Profit after taxation	27 846	189 614

Statement of changes in equity
for the year ended 30 November 2011

R000	Share capital	Share premium	Special reserve account*	Retained income	Shareholders' equity
Balance at 30 November 2009	3 375	41 923	332	261 056	306 686
Profit after taxation				189 614	189 614
Issue of 299 919 shares	30	7 227			7 257
Dividends to shareholders				(110 349)	(110 349)
Dividends to subsidiary				(8 777)	(8 777)
Balance at 30 November 2010	3 405	49 150	332	331 544	384 431
Profit after taxation				27 846	27 846
Issue of 105 833 shares	10	2 383			2 393
Dividends to shareholders				(115 483)	(115 483)
Dividends to subsidiary				(9 154)	(9 154)
Balance at 30 November 2011	3 415	51 533	332	234 753	290 033

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

	2011	2010
	R000	R000

Statement of cash flows

for the year ended 30 November 2011

	2011 R000	2010 R000
Cash generated from operating activities		
Dividends and interest received	30 645	192 000
Proceeds from capital reduction in subsidiary	24 097	
Interest received	53	
Operating costs paid	(2 337)	(2 174)
Decrease in working capital	270	692
Cash generated from operating activities	52 728	190 518
Taxation paid	(156)	(291)
Cash flow from operations	52 572	190 227
Dividends	(124 637)	(119 126)
Net cash (applied)retained	(72 065)	71 101
Cash applied to investment activities		
Decrease(increase) in loans to subsidiary companies	69 665	(79 005)
Net cash applied	(2 400)	(7 904)
Cash flow from financing activities		
Proceeds from the issue of shares	2 393	7 257
Decrease in cash and cash equivalents	7	647
Net financing raised	2 400	7 904

Notes to the company financial statements

	2011 R000	2010 R000
1. Interest in subsidiaries		
Shares at cost less amounts written off	110 859	134 956
Loans to subsidiaries	180 598	250 263
	291 457	385 219

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.

	2011 R000	2010 R000
2. Auditors' remuneration		
Audit fees for the current year	95	92

3. Contingent liability

The company has guaranteed the senior banking facilities of Hudaco Trading Pty Ltd. The maximum exposure in this regard is approximately R460 million and the exposure is R84 million at year end.

Principal subsidiaries

at 30 November 2011

	Issued share capital 2011 R unless indicated otherwise	Interest of holding company					
		Group's effective interest		Book value of shares		Loans owing by	
		2011	2010	2011	2010	2011	2010
		%	%	R000	R000	R000	R000
Principal subsidiaries							
Hudaco Trading Pty Ltd	2 000	85[1]	85[1]	2	2		
Operating divisions							
Abes Technoseal							
Ambro Sales							
Astore Africa							
Bauer Geared Motors							
Bearings International							
Belting Supply Services							
Bosworth							
Elvey Security Technologies							
Ernest Lowe							
Filter and Hose Solutions							
Global Communications							
Midrand Special Steels							
Pentagon							
Powermite							
Rutherford							
Varispeed							
Hudaco Investment Company Limited	26 160	100	100	48 158	48 158	180 485	250 150
Barbara Road Investments Pty Ltd	100	100	100				
DD Power Holdings Pty Ltd	300 000	70[2]	70[2]				
DD Power Pty Ltd	7 450 000	70	70				
Quadrant Investments Limited (Guernsey)	$7 424	100	100	18 584	42 681	113	113
Smithford Company Limited (Guernsey)	£1 312	100	100				
Valhold Limited	959 841	100	100	37 692	37 692		
Valard Limited	874 149	100	100	6 423	6 423		
Interest in subsidiaries				110 859	134 956	180 598	250 263

[1] 15% of the shares in Hudaco Trading Pty Ltd are held by the following BEE shareholders: Ulwazi Consortium – 5%; The Hudaco Trading BEE Staff Education Trust – 5%; The Hudaco Broad Based BEE Foundation – 5%.

[2] 30% of the shares in DD Power Holdings Pty Ltd are held by Deutz AG.

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

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 is hereby given that the 27th annual general meeting (AGM) of the shareholders of the company for the year ended 30 November 2011 will be held at 11:00 on Thursday, 22 March 2012 in the boardroom at Hudaco's 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]	2012
Record date for determining which shareholders are entitled to receive the AGM notice	Friday, 10 February
Notice posted to shareholders on [3]	Monday, 20 February
Record date for attending and voting at the AGM	Friday, 16 March
Last day for shareholders to lodge forms of proxy for the AGM by 11:00	Wednesday, 21 March
AGM to be held at 11:00	Thursday, 22 March
Results of AGM to be released on SENS on	Friday, 23 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 has determined that the record date for the purpose of determining which shareholders of the company are entitled to receive notice is Friday,10 February 2012, and the record date for purposes of determining which shareholders of the company are entitled to participate and vote at the AGM is Friday, 16 March 2012. Accordingly, only shareholders who are recorded as such in the register maintained by the transfer secretaries of the company on Friday, 16 March 2012 will be entitled to participate and vote at the AGM.*

Memorandum of Incorporation

Until the Companies Act No. 71 of 2008 (Companies Act) came into effect on 1 May 2011, the company was governed under its Memorandum of Association and Articles of Association. On the date that the Companies Act came into effect, the Memorandum of Association and Articles of Association of the company became the company's Memorandum of Incorporation (MOI). Accordingly, for consistency of reference in this Notice of the AGM, the terms MOI or Memorandum of Incorporation are used throughout to refer to the company's MOI (which previously comprised the Memorandum of Association and Articles of Association, as aforesaid).

All references in this Notice of the AGM (including all of the ordinary and special resolutions contained herein) to the company's MOI refer to provisions of that portion of the company's Memorandum of Association and/or Articles of Association (as the case may be).

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 financial statements of the company and of the Hudaco group, for the financial year ended 30 November 2011, together with the reports of the directors and the auditors.

2. To present the report of the audit and risk management committee appointed by the directors for the financial year ended 30 November 2011.

3. 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 articles 54.1 and 54.2 of the company's MOI and who are eligible and have offered themselves for re-election.[1]
3.1 Ordinary Resolution Number 1.1: re-election of Mr RT Vice; and
3.2 Ordinary Resolution Number 1.2: re-election of Mr CV Amoils.

Note

1. *In terms of articles 54.1 and 54.2 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 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 4 and 5 of the integrated report.*

4. **Ordinary Resolution Number 2: To re-elect directors appointed since the previous AGM**

To elect as directors, each by way of a separate vote the following directors appointed by the board during the course of the year and who are required to retire in terms of article 54.3 of the company's MOI and who are eligible and have offered themselves for re-election:[1]

4.1 Ordinary Resolution Number 2.1: Mrs DD Mokgatle; and

4.2 Ordinary Resolution Number 2.2: Ms D Naidoo.

The remuneration and 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 3 and 4. It is the view of the board that re-election of the candidates referred in 3 and 4 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

1. In terms of articles 54.3 of the company's MOI, directors who are appointed by the board shall retire at the first succeeding annual general meeting and shall eligible for re-election. Brief curricula vitae of directors who have offered themselves for re-election are included on page 4 of the integrated report.

5. **Ordinary Resolution Number 3: To approve the re-appointment of external auditors**

To re-appoint Grant Thornton as independent auditor of Hudaco and to note that the individual registered auditor who will undertake the audit for the financial year ending 30 November 2012 is Mr C Botha.

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 and the Companies Regulations 2011, and has accordingly nominated Grant Thornton for re-appointment as auditors of the company.

6. **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, namely:

6.1 Ordinary Resolution Number 4.1: To elect Mr SG Morris as member and chairman;

6.2 Ordinary Resolution Number 4.2: To elect Mrs DD Mokgatle as member, subject to the passing of Ordinary Resolution Number 2.1; and

6.3 Ordinary Resolution Number 4.3: To elect Ms D Naidoo as member, subject to the passing of Ordinary Resolution Number 2.2.

Under the Companies Act the audit committee is a committee elected by the shareholders at each AGM. A brief *curriculum vitae* of each of the independent non-executive directors mentioned above appears on page 4 of this 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 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. The board recommends the election of the directors listed above as first members of the audit and risk management committee appointed by the shareholders.

7. **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 be and it is hereby approved as set out below for the period 1 December 2011 until the date of the next AGM.

	Proposed 2012		2011	
	Base fee	Attendance fee per normal meeting	Base fee	Attendance fee per normal meeting
R				
Board				
Chairman of the board	462 000	22 000	420 000	20 000
Board member	110 000	16 500	100 000	15 000
Audit and risk management committee				
Chairman of the committee	100 000	16 500	90 000	15 000
Committee member	50 000	11 000	45 000	10 000
Remuneration and nomination committee				
Chairman	100 000	11 000	90 000	
Committee member	27 500	11 000	25 000	10 000
Social and ethics committee				
Chairman	60 000	16 500		

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 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 December 2011 until the date of the next AGM of the company. The fees payable to the non-executive directors are detailed above. Further details on the basis of calculation of remuneration are included in the remuneration report on page 56 of the integrated report.

8. **Non-Binding Resolution Number 1: Endorsement of Hudaco's remuneration policy**

That shareholders endorse, through a non-binding advisory vote to ascertain the shareholders' view, Hudaco's remuneration policy and its implementation. Hudaco's remuneration report is set out on pages 49 to 51 of this integrated report.

In terms of the King Code of Governance Principles for South Africa 2009, an advisory vote 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.

9. **Special Resolution Number 2: Authorising the provision of financial assistance in terms of sections 44 and 45 of the Companies Act**

That the board of directors of the company be and they are hereby authorised, to the extent required by and subject to sections 44 and 45 of the Companies Act and the requirements, if applicable of i) the MOI; and ii) the JSE Listings Requirements, to cause the company to provide direct or indirect financial assistance to a related or inter-related company or corporation, or to a member of a related or inter-related corporation, or to any beneficiary participating in the Hudaco Share Appreciation Bonus Scheme, or member, 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 2.

Reason and effect of special resolution number 2

Notwithstanding the title of section 45 of the Companies Act, being "Loans or other financial assistance to directors", on a proper interpretation, the body of the section may also apply to financial assistance provided by a company to related or inter-related companies and corporations, including, among others, its subsidiaries, for any purpose.

Furthermore, section 44 of the Companies Act may also apply to the financial assistance so provided by a company to related or inter-related companies, in the event that financial assistance is provided for the purposes of, or in connection with, the subscription of any option, or any securities, issued or to be issued by the company or a related or inter-related company, or for the purchase of any securities of the company or a related or inter-related company.

Both sections 44 and 45 of the Companies Act provide, among others, that the particular financial assistance 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.

In the normal course of business the company is often required to grant financial assistance, including but not limited to loans, guarantees in favour of third parties, such as financial institutions, service providers and counter-parties (in respect of the provision of banking facilities, acquisition transactions, debt capital) for the obligations of the company or a related or inter-related company or corporation, or to a member of a related or inter-related corporation, or to any beneficiary participating in the Hudaco Share Appreciation Bonus Scheme, or to a person related to any such company, corporation or member. Special resolution 2 will enable the company to provide such financial assistance to subsidiaries and juristic persons in the Hudaco group or other person that is or becomes related or inter-related to the company for any purpose in the normal course of business.

10. **Special Resolution Number 3: General authority to repurchase shares**

That Hudaco or any of its subsidiaries be and is hereby authorised, by way of a general approval, to acquire Hudaco ordinary shares issued by Hudaco, in terms of Sections 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 counter-party;
- this general authority shall be valid until Hudaco's next AGM, provided that it shall not extend beyond 15 (fifteen) months from the date of passing of this special resolution;
- an announcement will be published as soon as Hudaco or any of its subsidiaries has acquired ordinary shares constituting, on a cumulative basis, 3% of the number of ordinary shares in issue and for each 3% in aggregate of the initial number acquired thereafter, in compliance with Rule 11.27 of the JSE Listings Requirements;
- acquisitions of shares in aggregate in any one financial year may not exceed 10% of Hudaco's ordinary issued share capital as at the date of passing of this special resolution;
- 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;
- Hudaco undertakes that it will not enter the market to repurchase Hudaco's securities until Hudaco's sponsor has provided written confirmation to the JSE regarding the adequacy of Hudaco's working capital in accordance with Schedule 25 of the JSE Listings Requirements;
- 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;
- Hudaco and/or its subsidiaries may not repurchase any 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 shares to be traded during the prohibited period are fixed and full details of the programme have been detailed in an announcement over SENS 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 (twelve) months after the date of the 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
- Hudaco and the group's ordinary share capital, reserves and working capital will be adequate for ordinary business purposes.

The following additional information, some of which may appear elsewhere in the integrated report of which this notice forms part, is provided in terms of the JSE Listings Requirements for purposes of the general authority:

- directors and management – pages 4 to 7;
- major beneficial shareholders – page 34;
- directors' interests in securities – note 27.1 on page 91
- share capital of the company – note 17 on page 80.

Litigation statement

In terms of section 11.26 of the JSE Listings Requirements, the directors, whose names appear on pages 4 and 5 of this integrated report of which this notice forms part, are not aware of any legal or arbitration proceedings, including proceedings that are pending or threatened, that may have or had in the recent past, being at least the previous 12 months, a material effect on the Hudaco group's financial position.

Directors' responsibility statement

The directors, whose names appear on pages 4 and 5 of this integrated report, collectively and individually accept full responsibility for the accuracy of the information pertaining to this special resolution 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 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 notice.

Reason and effect of special resolution 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 Hudaco's shares.

The directors have no specific intention, at present, for Hudaco to repurchase any of its shares, but consider that such a general authority should be put in place in case a repurchase opportunity presents itself during the year that would be in the best interests of Hudaco and its shareholders.

11. Ordinary Resolution Number 5: Signature of documents

That any director or the 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.

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 member 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 member of the company. For the convenience of registered members of the company, a form of proxy is enclosed herewith.

Notice of
annual general meeting

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.

Members who have dematerialised their 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 Wednesday 21 March 2012.

By order of the board

R Wolmarans

Group secretary

26 January 2012

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

Corporate information

Hudaco Industries Limited
(Incorporated in the Republic of South Africa)
(Registration number: 1985/004617/06)
JSE Share code HDC
ISIN code ZAE000003273

Registered and business address
1st Floor, Building 9
Greenstone Hill Office Park
Emerald Boulevard
Greenstone Hill, Edenvale
Private Bag 13, Elandsfontein, 1406
Tel: +27 11 657 5000
Fax: +27 86 682 6779
E-mail: info@hudaco.co.za
Website www.hudaco.co.za

Secretary
Reana Wolmarans
Contact details as above

Transfer secretaries
Computershare Investor Services Pty Limited
70 Marshall Street, Johannesburg, 2001
PO Box 61051, Marshalltown, 2107
Tel: +27 11 370 5000

Auditors
Grant Thornton
137 Daisy Street, corner Grayston Drive
Sandown, 2196
Private Bag X28, Benmore, 2010

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

Sponsor
Nedbank Capital
135 Rivonia Road, Sandton, 2196
PO Box 1144, Johannesburg, 2000

Shareholders' diary

Financial year end	30 November
Annual general meeting	22 March 2012
Reports and financial statements	
Preliminary report and final dividend announcement	27 January 2012
Annual financial statements (mailed to shareholders)	20 February 2012
Interim report and interim dividend announcement	last week in June
Dividend payment details	
Payment of final dividend	12 March 2012
Payment of interim dividend	third week in August

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Group directory

Division	Business name	Principal activities	Address	Contact	
Engineering consumables					
Bearings	Bearings International	Distributor of bearings, chain, seals, electric motors, transmission products and alternators	Lancaster Business Park (off Atlas Rd) Parkhaven Ext 5 Boksburg	Tel Fax E-mail	011 899 0000 011 899 6586 info@bearings.co.za
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	Tel Fax E-mail	011 923 0600 011 923 0611 info@deutz.co.za
Power transmission					
	Ambro Sales	Distributor of special solid and hollow round steel	Cnr Lamp and Snapper Roads Wadeville	Tel Fax E-mail	011 824 4242 011 824 4864 sharona@ambro.co.za
	Astore Africa	Distributor of specialised thermoplastic pipes and fittings	46 Paul Smit Street Anderbolt Boksburg	Tel Fax E-mail	011 892 1714 011 892 2781 info@astore.co.za
	Bauer Geared Motors	Distributor of geared motors, helical gearboxes, frequency inverters and electric motors	72 Acacia Road Cnr Barbara Road Primrose	Tel Fax E-mail	011 828 9715 011 822 4135 home@gbauer.co.za
	Belting Supply Services	Distributor of conveyor belting, industrial hose, fluid sealing and process control products	15 Fortune Road City Deep	Tel Fax E-mail	011 610 5600 011 610 5700 info@belting.co.za
	Bosworth	Manufacturer of conveyor drive pulleys, forgings and rollings	Cnr Vereeniging and Juyn Roads Alrode	Tel Fax E-mail	011 864 1643 011 908 5728 pulleys@bosworth.co.za
	Ernest Lowe	Manufacturer of hydraulic and pneumatic equipment	6 Skew Road, Boksburg North	Tel Fax E-mail	011 898 6600 011 918 3974 corporate@elco.co.za
	Filter and Hose Solutions	Distributor of filters for earthmoving equipment and industrial hose	160 Francis Road Anderbolt Boksburg North	Tel Fax E-mail	0861 347 789 011 894 5832 sales@fhs.co.za
	Midrand Special Steels	Distributor of special round and hexagon steel	118 Sarel Baard Crescent Gateway Industrial Park Centurion	Tel Fax E-mail	012 661 7609 012 661 7607 info@mssteel.co.za
	Powermite	Distributor of electric cabling, plugs, sockets, electric feeder systems and crane materials	92 Main Reef Road Technikon Roodepoort	Tel Fax E-mail	011 271 0000 011 760 3099 powermite.jhb@global.co.za
	Varispeed	Distributor of controllers, monitors and regulators of the speed of standard AC motors	4 Clovelly Business Park 342 Old Pretoria Main Road, Midrand	Tel Fax E-mail	011 312 5252 011 312 5262 drives@varispeed.co.za
Consumer-related products					
Power tools	Rutherford	Distributor of Makita power tools, marine engines and survey instrumentation	77 Smits Street Industries West	Tel Fax E-mail	011 878 2600 011 873 1689 info@rutherford.co.za
Security equipment	Elvey Security Technologies	Distributor of intruder detection, access control, related CCTV equipment and fibre-optics	65 Julbert Road Benrose	Tel Fax E-mail	011 401 6700 011 401 6753 sales@elvey.co.za
	Pentagon	Distributor of CCTV equipment, including design of systems, integration into access control, intruder, fire detection systems and Video over IP.	Block C 49 New Road Midrand	Tel Fax E-mail	011 312 0745 011 312 0723 info@pentagon.co.za
Communication equipment	Global Communications	Distributor of Kenwood professional mobile, radio and JVC cameras and integrated network solutions. Provider of telecommunications infrastructure	Highway Business Park Park Street Rooihuiskraal Centurion	Tel Fax E-mail	087 310 0400 011 661 0387 info@globalcomms.co.za
Automotive	Abes Technoseal	Distributor of clutch kits, automotive ignition leads and oil and hydraulic seals	10 Wankel Street Jet Park	Tel Fax E-mail	011 397 4070 011 397 4326 info@abes.co.za
Group head office	Hudaco Industries Hudaco Trading		Building 9 Greenstone Hill Office Park Emerald Boulevard Greenstone Hill Edenvale	Tel Fax E-mail website	011 657 5000 086 682 6779 info@hudaco.co.za www.hudaco.co.za

Executives			
Graham Dunford	Chief executive – Bearings and power transmission products		
Gilbert da Silva Adrian Vorster Alan Ross Ian Robertson	Chief executive Bearings & Transmission director Director Director	Danie Louw Robert Southey Horoun Adams Gary Howell	Director Financial director Logistic director Financial manager
Ossie Carstens Rowan Michelson	Chief executive Marketing director	Maurice Pringle	Sales director
Brian Constancon	Chief executive: Electrical power transmission	Chris de Kock	Financial director Power transmission
Lynette Anderson	Chief executive		
David Allman Cindy Dixon	Chief executive Managing director	Andrew Smith	Financial director
Knocks Ngema	General manager	Rika Wessels	Financial manager
Ossie Carstens Piet Swanepoel	Non-executive chairman Chief executive	Mark Knight Tom Harrison	Financial director HR director
Mark Tarboton Anton Dedekind	Chief executive General manager	Wendy Turner	Financial manager
Mark Tarboton Burtie Roberts	Chief executive Managing director	Jopie Oosthuizen Manny Vieira	Financial director Sales director
Barry Fieldgate Martin Petersen	Chief executive Financial director	Frank Venter Philip Venter	Sales director Operations director
Dominique du Plessis	Director		
Mike Allnutt Gawie Beukman	Chief executive Financial director	Andrew Mowat	Operations director
Rolf Lung Erika van der Velde	Chief executive Financial manager	Andries Mashilo	Sales manager
Bob Cameron-Smith Les Trollip Arusha Asari	Chief executive Outgoing financial director Incoming financial director	Bhoopendra Dulabh Mick Spooner	Divisional director Divisional director
Jack Edery Gary Lowe	Chief executive Financial director	Dave Waywell Zane Greeff	Key accounts director Technical director
Brendon Hall	Chief executive	Anton Hochleutner	Sales director
Paul Werner Errol Baker	Managing director Marketing director	Barbara Smith	Financial director
David Allman Danie Venter	Chief executive Managing director	Juan Radley Jayne Kyte	Financial manager Logistics director
Stephen Connelly Clifford Amoils Graham Dunford Reana Wolmarans Eli Karpen	Group chief executive Group financial director Executive director Group secretary Group risk and internal audit manager	Cassie Lamprecht Andrew Wallis Gary Walters Jonny Masinga	Group accountant Group treasurer Acquisitions manager Transformation and human resources executive

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Form of proxy

To: **Computershare Investor Services Pty Limited**
70 Marshall Street, Johannesburg
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 code** ZAE000003273
(Hudaco or the company)

Proxy form for the twenty-seventh annual general meeting – for use by certificated ordinary shareholders and dematerialised shareholders with own name registration only (see overleaf, note 1).

To be received by no later than 11:00 on Wednesday, 21 March 2012.

For use by members of Hudaco at the annual general meeting of Hudaco to be held on Thursday, 22 March 2012 at Hudaco's offices situated at Building 9, Greenstone Hill Office Park, Emerald Boulevard, Greenstone Hill, Edenvale, Gauteng (the annual general meeting) at 11:00.

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		
	For	**Against**	**Abstain**
Ordinary Resolution Number 1: To re-elect directors retiring by rotation:			
1.1 RT Vice			
1.2 CV Amoils			
Ordinary Resolution Number 2: To re-elect directors appointed since the previous AGM:			
2.1 DD Mokgatle			
2.2 D Naidoo			
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 DD Mokgatle			
4.3 D Naidoo			
Special Resolution Number 1: Approval of non-executive directors' remuneration			
Non-binding Resolution: Endorsement of Hudaco's remuneration policy			
Special Resolution Number 2: Authorising the provision of financial assistance in terms of sections 44 and 45 of the Companies Act			
Special Resolution Number 3: General authority to repurchase shares			
Ordinary Resolution Number 5: Signature of documents			

Signed at on 2012

Signature(s)

Assisted by me (where applicable)

Notes to the form of proxy

1. Members who have dematerialised their shares through a Central Securities Depositary 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 member may insert the name of a proxy or the names of two alternative proxies of the member's choice in the space provided. The person whose name appears first on the form of the 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 member's instructions to the proxy must be indicated by an "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 member from attending the annual general meeting and speaking and voting thereat to the exclusion of any proxy appointed in terms hereof should the member 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 or e-mail will be acceptable.
6. Each member is entitled to appoint one or more proxies (none of whom needs to be a member of Hudaco) to attend, speak and vote in place of the member 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 holders of ordinary shares:
   a) Any one holder 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 members appear in Hudaco's register of members) 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 Pty Limited, 70 Marshall Street, Johannesburg, 2001 (PO Box 61051, Marshalltown 2107), so as to reach them by no later than Wednesday, 21 March 2012 at 11:00.

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

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Hudaco

www.hudaco.co.za