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 are being nurtured with a view to their being able to step into the breach as more senior managers reach retirement age. Most members of the senior management team have attended a Hudaco Executive Development Programme in recent years. During 2012, 52 people at the next levels identified as having potential to grow into higher management positions graduated from the Hudaco Certified Programme in Leadership Development and Certified Programme in Management Development, both presented by Wits Business School.
- Technical expertise: Critical relationships in the field are with the technical and maintenance teams of our customers. 41 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.

Decentralised management

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

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

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

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

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

Acting on our commitment to transformation

41 – 43 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, female and disabled management talent is receiving significant priority.

As an important step in driving transformation in the group, Jonny Masinga was appointed group executive: transformation and human resources in July 2011. Jonny has more than 12 years' experience in human resources management, organisational development and transformation. One of his key tasks in Hudaco is to accelerate the appointment of black senior managers. To this end, he put in place the 2012 CPLD and CPMD programmes with Wits Business School referred to above. Building on this success, we will be repeating the CPMD and running a Future Leaders Development Programme (FLDP) for junior management with Wits Business School in 2013.

Our strategy with regard to transformation is largely unchanged:

- Black representation in management is a core focus for all management appointments. All senior appointments in the group – the designated top 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. Two Black women chartered accountants joined the group in 2012 as financial directors of two of our largest businesses.

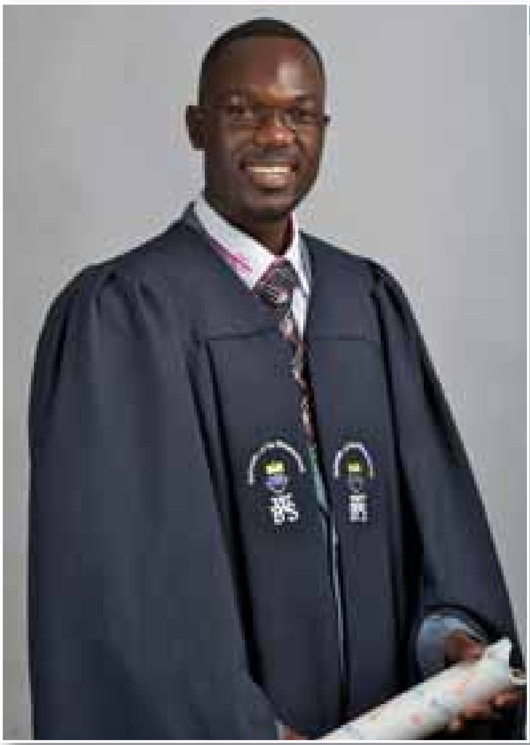
Hudaco's CPMD graduates at Wits Business School

Hudaco Trading BEE Staff Education Trust 2012 bursary students

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

Skills development and training

Under the auspices of the group transformation and human resources executive and with the assistance of the Wits Business School which is internationally recognised, the group conducted a leadership development programme (CPLD) and a management development programme (CPMD) in 2012. The aim of these programmes is to provide a steady flow of leadership talent for the group, with particular emphasis on developing black leadership. We are already having successes in bringing potential black leaders through the ranks and preparing them for future senior management positions.



No ceiling for former security guard: the power of determination

Thyphrus Baloyi joined the Hudaco group in 2004 as a security guard at Elvey Security Technologies. In 2012 he graduated from Wits Business School on the Hudaco CPMD programme. He also holds a B Com degree in Internal Audit from UNISA. Thyphrus grew up and matriculated in an impoverished rural area. Financial constraints delayed his further studies until his potential was recognised while he was on security duty. His tenacity saw him move up to storeman, counter sales assistant, branch administrator and then internal auditor at Elvey. This year he transferred to the Hudaco Group Risk department as a group internal auditor.

Thyphrus quotes the psychologist Albert Ellis as a motivator: "The best years of your life are the ones in which you decide your problems are your own. You do not blame them on your mother, the ecology or the president. You realise that you control your own destiny".

He sees himself as just beginning his journey up the corporate ladder: "You may wonder, have I reached my destiny? Of course not, the ceiling is too high, but I am certain that a solid foundation has been laid." Appreciating the opportunity given to him by Elvey's executives, he hopes that other talented people will be given the chance he was: "I have spotted unrealised talent throughout the group. I encourage management to recognise those people too and utilise them to the benefit of the organisation."

"Most successful people didn't achieve their distinction through a new talent, they embraced the opportunities given to them." – Hilary Jansen, best student on 2012 CPMD programme

Ntombi Thabethe of Ernest Lowe – Wits CPMD graduate

Dumisani Nkosi of Global Communications – Wits CPMD graduate

The CPLD programme had 28 participants, of whom only two were black. However, the CPMD also had 28 participants, but 20 were black people.

Customer interaction occurs primarily through our technical sales team. As they are the face of the business and the drivers of organic growth in revenue, we invest heavily in their training. New appointees are sent for training prior to being placed in the field. The board also supports training and skills development initiatives through bursary programmes, management training schemes (as described above), experiential trainee programmes, mentorships, apprenticeships, educational assistance and learnerships. Extensive in-house and external training is given in a wide range of practical and theoretical subjects to better equip employees with the skills required for senior positions. The apprenticeship programme content includes financial administration, human resources administration, inventory management and warehousing courses, as well as technical product training; 58 staff members successfully completed their courses in 2012, 57% up on the 37 successful candidates in 2011.

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 provides financial support to the Thuthuka Bursary Fund, which develops and trains black chartered accountants.

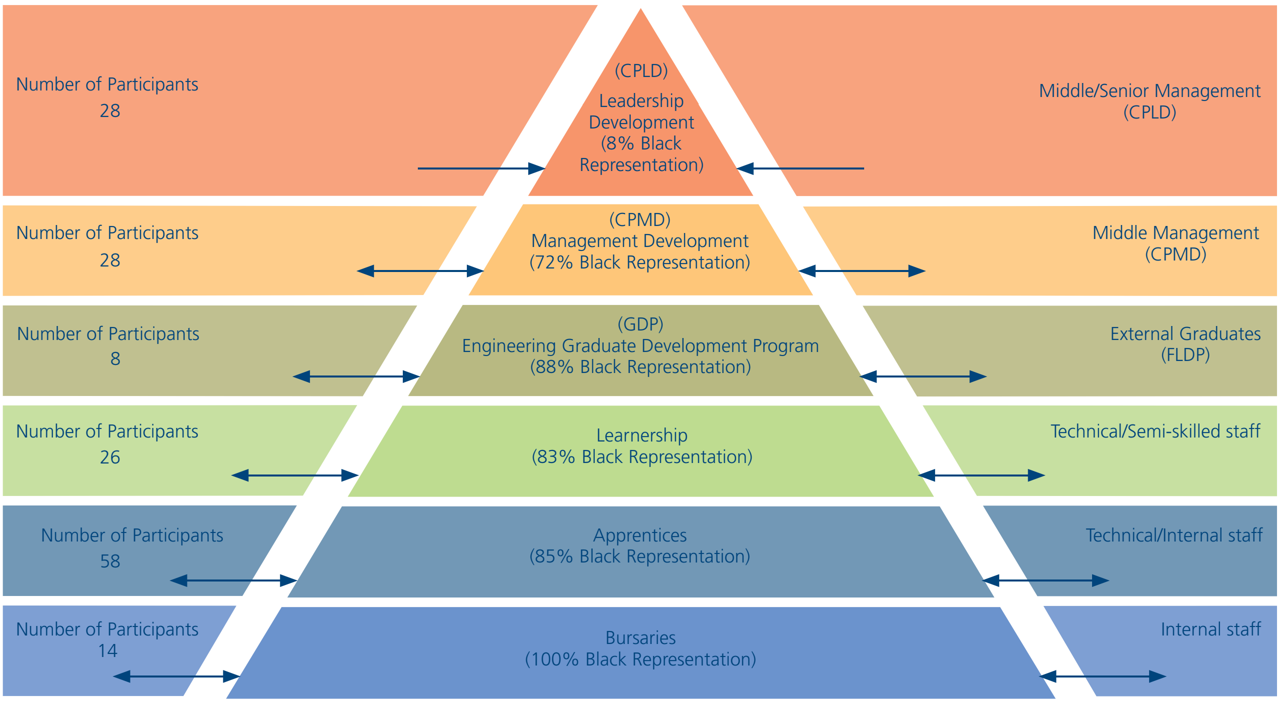
During the year under review, group expenditure on employee training amounted to approximately R3 million (2011: R3 million).

We also invest in developing product knowledge in our customers or the installers of the products that we distribute, which results in deep brand loyalty. As a policy, we don't charge for this training of the installers or our agents – we believe that as we are in the business of distributing high-quality brands, the more the clients understand the value of the product, the more loyal they will be.

In 2012 Hudaco introduced an engineering graduate development programme with the aim of addressing skills shortages in the technical side of our business. Currently more than 80% of the participants are black. Three of the eight participants have completed their studies and have qualified as engineers. Hudaco has permanently employed two of the qualified engineers at Ernest Lowe, whilst the other graduate is being mentored at Bearings International. Every effort is made to absorb the graduates into our employ as they qualify.

Below is a graphic depicting the overall training initiatives implemented by Hudaco during 2012. Employment equity and skills development committees exist at the group's various businesses to drive the various skills development programmes.

Build and retain capabilities through internal development



Talent management

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

- Ability to appreciate and articulate the broad picture of the business relative to the sector within which they operate, as well as within Hudaco
- Achievement of budgets, plans and agreed personal objectives
- Ability to attract and retain star employees
- 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, would however be a far more serious threat to the continuity and sustainability of our business model. As far as possible, we try to maximise retention of key talent by providing incentives in the form of performance bonuses, developing long-term career path opportunities for our staff within the broader group and consultation with a view to identifying staff at risk.

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

Succession planning

A formal performance management and succession policy is in place. Black women were appointed to the financial director positions at two of our largest businesses during 2012. The vacancies both arose through the retirement of senior managers. We continued to focus on communicating our succession plans with senior management during the year and ensuring that our training and development efforts and employment equity plans are in alignment.

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.

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.

Prior to 2012 the executive committee approved a Life-threatening Diseases Policy, which has been adopted by all our businesses. From a benefit point of view, the policy regarded HIV/Aids in the same light as other life-threatening diseases. However, in 2012 a separate HIV/Aids policy was submitted to Hudaco's social and ethics committee and it will be put to the Hudaco board in March 2013 for approval.

Our health and safety record for 2012 shows no fatalities, 45 disabling injuries (2011: 38) and a disabling injury frequency rate (DIFR) per 200 000 hours worked of 1,7 (2011: 1,5). The injury rate remains low compared to industry averages.

Retirement funds

The group 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 currently held in separate, independently administered funds run by trustees in terms of the Pension Funds Act.

After a thorough exercise to determine the best way forward for members, assisted by independent consultants, the trustees of the funds recommended that members transfer from the separate Hudaco funds to the Evergreen umbrella funds administered by Old Mutual. This will be implemented during the first half of 2013. Administrative costs will be lower, leaving more funds to be invested for retirement and greater expertise will be brought to bear on corporate governance aspects. No benefits or flexibility will need to be sacrificed on account of the transfer.

Wellness

With the support of Alexander Forbes Health and Discovery Health Medical Scheme, we ran an Employee Wellness programme at our locations in Gauteng, which represent nearly 70% of all employees in the group. Employees, irrespective of whether they were covered by medical aid or not, were offered, at no cost to themselves:

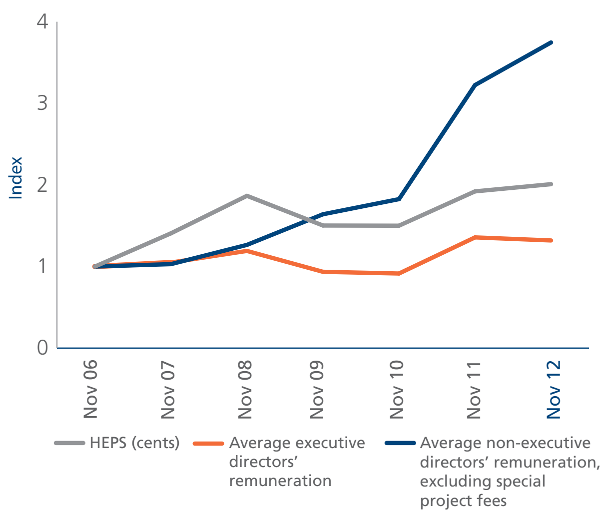
- Health Risk Assessment: Height, Weight, Blood Pressure, Cholesterol, Glucose and BMI
- HIV Voluntary Counselling and Testing
- Eye Screening by a Mobile Optometrist
- Immediate feedback of the results including information on risk factors, healthy eating and exercise habits

All businesses that participate in the Wellness programme receive a report indicating certain risk factors within the organisation. In total, 766 Hudaco employees, of whom 499 are not on medical aid, took advantage of the opportunity and had a Health Risk Assessment, while 389 employees checked their HIV status. Approximately 30 employees tested positive for HIV. They received counselling and were referred to the most appropriate channel to seek medical treatment. The major risk factor consistent across the group was BMI averages indicating a higher than normal percentage of overweight employees. Without intervention, this could lead to the development of high blood pressure, high cholesterol and diabetes.

The Wellness days provided the opportunity for employees who are not on medical aid and who would otherwise not take the time to be tested for these potentially life threatening conditions to have their assessment done on-site and free of charge. Based on the positive uptake at the Wellness days in the Gauteng region, the programme will be extended to Durban and Cape Town early in 2013 and repeated in Gauteng later in the year.

Wellness days – detecting health problems early

Average Directors' Emoluments vs HEPS



Workforce profile

	2012	2011
Total workforce	**2 652**	2 505
Less: Non-permanent employees	**64**	36
Total permanent workforce	**2 588**	2 469
Racial and gender profile:		
White males	**704**	674
White females	**336**	361
Black, Indian and Coloured males	**1 232**	1 149
Black, Indian and Coloured females	**316**	285
Occupational level profile:		
Top and senior management	**72**	69
Middle management	**344**	295
Junior management	**971**	884
Non-management	**1 201**	1 221
Management profile by gender:		
Females	**311**	276
Males	**1 076**	972
Management profile by race:		
White	**875**	802
Black, Indian and Coloured	**512**	446
Non-management profile by gender:		
Females	**341**	370
Males	**860**	851
Non-management profile by race:		
White	**165**	233
Black, Indian and Coloured	**1 036**	988

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: Previously, this level of remuneration applied only to the top 60 or so senior managers in the group. During 2012 the list of participants has been expanded to include a further 100 people at the next level of management. 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.

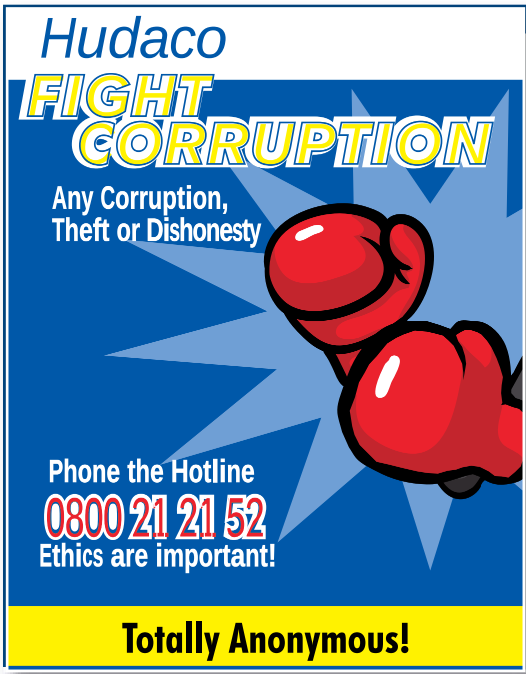
Further information on executive remuneration is set out in the report of the Remuneration and Nomination Committee, commencing on page 50. 50

Corporate ethics and governance

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

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

The Hudaco Group Code of Ethics is in line with King III (refer to the summary below). The code applies to all employers and employees in the group. It is communicated as part of every new employee's induction, is included in all training programmes, and guides us in the determination of our corporate values. These values include: fairness, respect and dignity, tolerance of alternative views, protection from victimisation, encourage healthy relationships, mutual support and loyalty. Employees are not inhibited in any way with regard to collective bargaining or union membership but levels of unionisation in our businesses are low.



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*

Building future capacity in Hudaco

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.

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 2012.

Enterprise development and socio economic development

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

Engineering apprenticeship participants

At the request of one of our messengers, Hudaco sponsored kit for a local soccer team

Mandela Day: Our staff donated 1 000 blankets – distributed in Alexandra, Orange Farm and Hillbrow

These funds are managed and distributed by Hudaco's head office on behalf of business units. In 2012, Hudaco donated approximately R1,3 million (2011: R1,0 million) to a variety of charitable initiatives.

More than a 1 000 blankets were donated by employees of Hudaco for under-privileged children and the aged in support of Mandela Day on 18 July 2012. These were distributed in Alexandra, Orange Farm and Hillbrow by our people through Afrika Tikkun, a non-government organisation that provides education, health and social services to the under-privileged in South African townships.

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 2012, 35 (2011: 37) students were granted bursaries, of whom 21 were women. For the 2013 academic year 46 students have been identified for bursaries, of whom 27 are women.

Successful bursary students

Sibongile Molemane

My name is Sibongile Molemane and my father works for Bearings International. I was most fortunate to receive a bursary from Hudaco for my 3rd year of a BA degree at the University of Pretoria, majoring in psychology and criminology. I am proud to say that thanks to the funding Hudaco provided, I managed to complete my degree in record time and have since graduated. This year I will be doing my Honours in Psychology. I would like to thank everyone at Hudaco for believing in me and giving me the opportunity to complete my undergraduate studies. The bursary really helped both me and my parents, taking the financial stress off our shoulders, thus helping me to concentrate on my studies and achieve my dream of becoming a psychologist. Thank you Hudaco for showing the concern and commitment to help transform students' dreams into reality ... I will forever be grateful.

Brendon Thomas

My circumstances during my high school years were very difficult – some days we did not have food and paying school fees was a major challenge. However, my parents taught me the importance of a good education and with perseverance and hard work I matriculated in 2009, ranking third in my class. I have always wanted to study film and enrolled at AFDA for a Diploma in Live Performance. To pay for my first year tuition, my parents took out a loan, which they found very difficult to service. However, luckily my father, an employee of Elvey found out about Hudaco's bursary programme. My application was successful and as they say: the rest is history. At the end of 2012 I obtained my Bachelor of Arts in Live Performance.

In February 2013 I will be working on some projects in the film industry. With the support of Hudaco I am finally one step closer to changing the face of the South African film industry and telling stories that the South African people want to hear.

How Hudaco is **governed**

The recent transformation of the legislative, regulatory and best practice standards in the corporate governance environment in South Africa obliges companies to remain committed to reviewing corporate governance policies and procedures. The processes implemented by Hudaco to respond to these challenges are outlined hereunder:

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 serve to provide stakeholders with the assurance that the group's businesses are managed appropriately.

Application of and compliance with King III

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

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 2012 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.

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 group financial director. The committee believes that the group financial director respects and encourages the independence of the internal audit head and his department and is satisfied that the required independence is maintained.

Because of the nature of the information presented, the board has not considered it necessary to obtain independent assurance on sustainability reporting. 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.

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An internal assessment of the application of King III and levels of compliance is set out in table form on page 58 of this integrated report. A detailed report of Hudaco's application of and compliance with the 75 King III principles is set out on the group's website: www@hudaco.co.za

Board of directors

Board composition

4, 5

Hudaco has a unitary board structure, comprising 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.

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

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

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

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 below.

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

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

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

Board charter

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

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

- Role and function of the board;
- Detailed responsibilities;
- Discharge of duties;
- Board composition; and
- Establishment of committees.

Board meeting attendance 2012

	Jan	Feb	Mar	Jun	Oct
RT Vice	✔	✔	✔	✔	✔
CV Amoils	✔	✔	✔	✔	✔
SJ Connelly	✔	✔	✔	✔	✔
GR Dunford	✔	✔	✔	✔	✔
DD Mokgatle	✔	✔	✔	✔	✔
SG Morris	✔	✔	✔	✔	✔
D Naidoo	✔	✔	✔	✔	✔

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 remuneration and nomination committee assists the board with the assessment, recruitment and nomination of new directors, subject to the whole board approving these appointments. Board members are also invited to interview any potential appointees. A formal and transparent procedure applies to all board appointments, which are subject to confirmation by the shareholders at the annual general meeting. A formal policy has been adopted in this respect by the board.

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

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), Dolly Mokgatle and Stuart Morris, all of whom are independent non-executives.

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 2012. 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 2012

	Jan	Jun
RT Vice	✔	✔
DD Mokgatle	✔	apology
SG Morris	✔	✔

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.

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As explained on page 48, the chairman of the board also chairs the remuneration committee.

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

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

Group remuneration policy

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

The board promotes a culture that supports enterprise and innovation with appropriate short-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 believes that the remuneration policy aligns senior management's interests with those of the stakeholders by promoting and measuring performance that drives long-term sustained shareholder wealth.

At the annual general meeting held on 22 March 2012, 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 2012 by 21st Century Pay Solutions. No executive receives remuneration outside the band recommended by our consultants.

Short-term performance-based remuneration

Short-term performance-related remuneration for the chief executive and the financial director is currently based on the achievement of earnings growth and a predetermined return on equity. The payment for earnings growth is not capped. In 2013, 25% of the chief executive's possible performance-related earnings will be re-allocated from these financial objectives to the following non-financial objectives:

- Increasing black representation in senior management
- Succession planning, in particular the Hudaco chief executive position
- Success in acquisitions
- Improving the image of the group
- Expanding sales in Africa

For senior managers, performance-based remuneration is linked to a combination of the achievement of appropriate returns on operating assets (capped) and annual growth in operating profit (uncapped) in the businesses under their direction.

In respect of the executive directors, up to 95% of fixed remuneration is paid as performance-related remuneration in the year in which it is earned. Half of the payment for achieving earnings growth above 20% is also paid in the year in which it is earned whilst the other half is carried forward and paid the following year if certain conditions have been met. For other senior managers the percentage is 75% – otherwise the same rules apply.

Where considered appropriate, the committee pays bonuses based on the assessment of personal performance.

At its meeting in January 2012, the committee set parameters for the 2012 incentive schemes. At the January 2013 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. 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 CPI plus 5% per annum between the date of the award and the vesting date.

Previously, share appreciation rights were awarded only to executive directors and senior managers. In July 2012, this was extended to include the level of employees directly below the senior managers and 402 433 share appreciation rights were awarded to a total of 151 people.

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

Executive directors' emoluments

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Details of executive directors' emoluments are set out in note 27.3 to the financial statements. A graph showing the correlation between executive directors' remuneration and heading earnings per share is set out on page 44.

Prescribed officers

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

Directors' interests in share appreciation bonus scheme

Details can be found in note 27.2 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.

Stephen Connelly (chief executive) and Graham Dunford (CEO: Bearings and power transmission) 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 understand 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. These fees were approved by the shareholders on 22 March 2012 for the period 1 December 2011 until the next annual general meeting, which will be held on 28 March 2013.

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. The proposed fees for 2013/14 have increased by more than the inflation rate in an effort to catch up with the market. Also proposed is that the attendance fee per meeting be replaced by a system of penalty for non-attendance. At Hudaco's annual general meeting to be held on 28 March 2013, shareholders will be requested to approve the non-executive directors' fees for the period 1 April 2013 until the date of the next annual general meeting in 2014 as outlined in the notice of the annual general meeting.

Non-executive directors' fees for the year ended 30 November 2012 are reflected in note 27.3 to the financial statements.

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 requirements of transformation, continuity and succession planning;
- 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;
- 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;
- 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 2013.

Audit and risk management committee

The members of the committee during the 2012 financial year were Stuart Morris (chairman), Dolly Mokgatle and Daisy Naidoo.

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

Meetings are held at least three times a year and the chairman of the board, the chief executive, financial director 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 2012.

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;
- evaluating the activities and the effectiveness of the internal audit function.

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

- nominate for appointment a registered auditor who is independent of the company;
- determine the fees to be paid to the auditor and the auditor's terms of engagement;
- ensure that the appointment of the auditor complies with the Companies Act and any other legislation relating to the appointment of auditors;
- determine the nature and extent of any non-audit services which the auditor may provide to the company;
- pre-approve any contract with the auditor for the provision of non-audit services to the company;
- prepare a report, to be included in the annual financial statements for that year;
  - describing how the committee carried out its functions;
  - stating whether the committee was satisfied that the auditor was independent of the company; and
  - commenting in any way the committee considers appropriate on the financial statements, the accounting practices and the internal financial control of the company;
- 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 2013 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 2012 were approved and the scope of the proposed audit work was agreed.
- In 2012 the audit committee reviewed its policy for the use of external auditors for non-audit services. Any non-audit-related services to be performed by the external auditors require the approval of the audit committee on a case-by-case basis. The overarching criterion for approval being that the independence of the external auditors should not be impaired through the provision of services under consideration. It was agreed that there will be a rebuttable presumption that non-audit fees totaling up to 25% of the budgeted annual audit fees will not alone impair the independence of the auditors.
- The committee confirmed the independence of the internal audit function and satisfied itself that internal audit is functioning effectively.
- 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.
- As at the date of this integrated report, no complaints have been received relating to the accounting practices and internal audit of the company or to the content or auditing of the company's financial statements or its internal financial controls, or to any related matter.
- In terms of paragraph 3.84(h) of the JSE Listings Requirements, the committee has satisfied itself that the expertise and experience of the financial director are appropriate.

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

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

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

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

16 – 18

The key risks faced by the group are described on pages 16 to 18 of this integrated report.

Audit and risk management committee meeting attendance 2012

	Jan	Jun	Oct
SG Morris	✔	✔	✔
DD Mokgatle	✔	✔	✔
D Naidoo	✔	✔	✔

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 levels. Through this framework, operational and financial responsibility is formally and clearly delegated to the chief executive, the group financial director and the executives of the principal operating 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 co-ordinated in order to provide efficient and effective assurance to the group's audit and risk management committee.

Risk

The board assesses the risks in the group's business environment with a view to eliminating or reducing them in the context of the group's strategies, operations and risk appetite. The board has confirmed its acceptance of the group's risk management processes and is satisfied that all risks are appropriately governed. The key risks faced by the group are described on pages 16 to 18 of this integrated report. The group's annual internal audit plan incorporates the outcomes of the risk management process. The group risk and internal audit department provides a risk identification facilitation role. Management is responsible for managing risks on a daily and operational basis. The board is responsible for determining the group's appetite and risk levels. The group risk map, examined by the board at each meeting, includes a risk tolerance line to highlight whether any residual risks fall beyond the risk tolerance level.

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Litigation and legal

In the normal course of business, Hudaco is subject to various proceedings, actions and claims. These matters are subject to risks and uncertainties that cannot be reliably predicted. 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 persists with its view that additional tax is payable in connection with the group's BEE structure (refer to page 34).

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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 attracts additional risk. Ensuring proper system security, data integrity and business continuity is the responsibility of the board, but is overseen by the executive committee and the audit and risk management committee.

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

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

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

Executive committee

The members of the committee for the year ended 30 November 2012 were: Stephen Connelly (chairman), Clifford Amoils, Bob Cameron-Smith, Ossie Carstens, Gilbert da Silva, Graham Dunford, Jack Edery, Jonny Masinga and Reana Wolmarans.

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 2012

	Jan	Mar	Jun	Oct
SJ Connelly	✔	✔	✔	✔
CV Amoils	✔	✔	✔	✔
RC Cameron-Smith	✔	✔	✔	✔
JO Carstens	✔	✔	✔	✔
GC da Silva	✔	✔	✔	✔
GR Dunford	✔	✔	✔	✔
J Edery	✔	✔	✔	✔
KJ Masinga	✔	✔	✔	✔
R Wolmarans	✔	✔	✔	✔

Report of the social and ethics committee

Composition and terms of engagement

The members of the committee during the 2012 financial year were Daisy Naidoo (chairman), Clifford Amoils and Graham Dunford.

The chairman of the committee is an independent non-executive director, while the other two members are both executive directors. The committee meets twice a year and reports to the board. Meetings are also attended by the Hudaco group secretary and the transformation and human resources executive. Furthermore, the committee is entitled to invite other executives and senior managers of Hudaco to attend meetings by invitation as required in order to perform its mandate.

Hudaco's social and ethics committee, which was appointed by the board on 27 October 2011 and held its first meeting on 6 March 2012, monitors and oversees Hudaco's activities in relation to:

- social and economic development, including the principles of the UN Global Compact, Broad-based Black Economic Empowerment, Employment Equity and the OECD's recommendations on corruption;
- good corporate citizenship, including the promotion of equality, prevention of unfair discrimination, corporate social responsibility, ethical behaviour and managing environmental impacts;
- consumer relations;
- labour and employment, including skills development.

This statutory committee will be proposed for ratification by shareholders at the forthcoming annual general meeting scheduled to take place on 28 March 2013. At this meeting the chairman will report to shareholders in accordance with regulation 43(5)(c) of the Companies Act on Hudaco's performance with respect to its key focus areas.

Role and responsibilities

During the 2012 financial year the committee particularly focused on Hudaco's strategy and performance with regard to:

- legislation and codes of best practice;
- transformation;
- labour and employment.

Legislation and codes of best practice

The committee noted that Hudaco fully supports the ten principles of the UN Global Compact (UNGC). A self-assessment on compliance by Hudaco with the UNGC was conducted by management and, although Hudaco's standing in terms of the goals and purposes of these principles was generally sound, the group continuously strives towards improved compliance in these areas.

Hudaco's compliance framework rests on the group's comprehensive set of policies, which are regularly updated and reviewed. Since its establishment the committee has dealt with the following policies:

- Corporate compliance;
- HIV/AIDS;
- Environmental;
- Career development and succession planning;
- Corporate social investment;
- Enterprise development; and
- Anti-corruption and bribery.

In addition to the above-mentioned policies, the committee also considered the Code of Ethics.

The committee was provided with assurance that Hudaco complies with relevant legislation. The corporate compliance policy was specifically drafted to ensure that the group continues to be fully compliant in this regard and deals with the following:

- No breach of laws;
- No anti-competitive behaviour;
- No corruption;
- No inappropriate risks for human health and the environment;
- No illegal insider trading;
- No deception;
- No infringement of others' intellectual property rights;
- No inappropriate conflicts of interest; and
- No misinformation.

In compliance with Hudaco's competition law policy, directors and senior managers throughout the group are required on an annual basis to acknowledge that they have not engaged in any anti-competitive behaviour. This is dealt with on the agendas of board meetings throughout the group.

Initiatives are in place to counter-act risks of fraud, bribery and corruption and all tip-offs from Hudaco's whistle-blowing hotline are followed up, and appropriate action is taken against perpetrators.

Transformation

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The committee noted that most of the businesses within the group were level 4 and Bearings International fared best by achieving a level 2 rating. See page 34 for more details on black economic empowerment.

The committee considered skills development and training within the Hudaco group and noted that more than 70% of Hudaco's training initiatives were aimed at black people as part of the group's overall transformation strategy. Full details can be found on pages 40 to 47 of the integrated report. 40 – 47

Enterprise development and socio economic development were also considered by the committee. Further information is set out on pages 46 and 47 of the integrated report. 46 – 47

Labour and employment

The committee was provided with re-assurance that Hudaco is committed to upholding human rights. 43, 44

We have reported on health and safety on pages 43 and 44 of the integrated report.

Social and ethics committee meeting attendance 2012

	Mar	Oct
D Naidoo	✔	✔
CV Amoils	✔	✔
GR Dunford	✔	✔

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.

In October 2012 the board considered and was satisfied with the competence, qualifications and experience of the company secretary, Reana Wolmarans. They concluded that an arm's length relationship had been maintained between the board members and the group secretary as required by the JSE Listings Requirements.

The certificate required to be signed in terms of section 88(2)(e) of the Companies Act appears on page 59 of the integrated report. 59

Share dealings

Hudaco has adopted a closed-period policy, which precludes directors, officers, participants and staff who may have access to price-sensitive information from dealing in Hudaco shares prior to the release of interim and final results as well as during other price sensitive periods.

All the directors, the members of the executive committee and their personal assistants are required to obtain written clearance from the chief executive before dealing in Hudaco's securities. The chief executive requires prior clearance from the chairman.

Details of share dealings by directors and group secretary are disclosed through the Securities Exchange News Service (SENS).

The group secretary maintains a record of all dealings in Hudaco shares by directors and affected employees.

The major subsidiaries do not have any directors who are not also directors of Hudaco.

Relationship with stakeholders

22 – 24

Hudaco's relationship with stakeholders is dealt with in the section on stakeholder engagement on pages 22 to 24.

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 sponsor during the year under review.

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

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

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

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	●
Ethical leadership and corporate citizenship	●
Effective leadership based on an effective ethical foundation	●
Responsible corporate citizen	●
Effective management of ethics	●
Assurance statement on ethics in the integrated report	●
Board and directors	
The board is the focal point for and custodian of corporate governance	●
Strategy, risk, performance and sustainability are inseparable	●
Directors act in the best interest of the company	●
The chairman of the board is an independent non-executive director	●
A framework for the delegation of authority has been established. The board comprises a balance of power, with a majority of non-executive directors who are independent	●
Directors are appointed through a formal process	●
Formal induction and ongoing training of directors is conducted	●
The board is assisted by a competent, suitably qualified and experienced company secretary	●
Annual performance evaluations of the board, its committees and individual members	●
Appointment of well-structured committees	●
An agreed governance framework between the group and its subsidiary boards is in place	●
Directors and executives are fairly and responsibly remunerated	●
Remuneration of directors and prescribed officers is disclosed	●
The company's remuneration policy is approved by the shareholders	●
Audit committee	
Effective and independent	●
Suitably skilled and experienced independent non-executive directors	●
Chaired by an independent non-executive director	●
Oversees integrated reporting	●
A combined assurance model is applied to improve efficiency in assurance activities	●
Satisfies itself of the expertise, resources and experience of the company's finance function	●
Oversees internal audit	●
Integral to the risk management process	●
Oversees the external audit process	●
Reports to the board and shareholders on how it has discharged its duties	●
Governance of risk	
The board is responsible for the governance of risk	●
The board determines the levels of risk tolerance	●
The audit and risk management committee assists the board in carrying out its risk responsibilities	●
The board has delegated the process of risk management to management. The board ensures that risk assessments are performed on a continual basis. Frameworks and methodologies are implemented to increase the probability of anticipating unpredictable risks	●
The board ensures that management implements appropriate risk responses	●
The board receives assurance regarding the effectiveness of the risk management process	●
Sufficient risk disclosure to stakeholders	●
Governance of information technology	
The board is responsible for the governance of Information Technology (IT)	●
IT is aligned with the performance and sustainability objectives of the company	●
Management is responsible for the implementation of an IT governance framework	●
The board monitors and evaluates significant IT investments and expenditure	●
IT is an integral part of the company's risk management. IT assets are managed effectively	●
The audit and risk management committee assists the board in carrying out its IT responsibilities	●
Compliance with laws, rules, codes and standards	
The board ensures that the company complies with applicable laws and considers adherence to non-binding rules, codes and standards	●
The board and each individual director and senior manager has a working understanding of the effect of laws, rules, codes and standards applicable to the company and its business	●
Compliance risk forms an integral part of the company's risk management process	●
The implementation of an effective compliance framework and process has been delegated to management	●
Internal audit	
The board ensures that there is an effective risk-based internal audit	●
Internal audit follows a risk-based approach to its plan	●
Internal audit provides a written assessment of the effectiveness of the company's system of internal controls and risk management	●
The audit and risk management 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	○*

**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 ○ 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 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 53 to 55.

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 2012 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

31 January 2013

Certificate by the **group secretary**

In accordance with the provisions of section 88(2)(e) of the Companies Act, I certify that, to the best of my knowledge and belief, the company has filed for the financial year ended 30 November 2012 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

31 January 2013

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 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 in page 64.

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 2012, which appear on pages 59 to 100, were approved by the board on 31 January 2013 and are signed on its behalf by:

RT Vice
Chairman

SJ Connelly
Chief executive

31 January 2013

Directors’ report

Reporting period

The directors have pleasure in presenting their report for the company’s financial year ended 30 November 2012. The consolidated financial statements for the year ended 30 November 2012 were authorised for issue in accordance with a resolution of the directors on 31 January 2013. Hudaco Industries Limited is a public company incorporated and domiciled in South Africa whose shares are publically traded. The principal activities of the group are described below:

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

Earnings attributable to shareholders of the group for the year ended 30 November 2012 were R340 million (2011: R324 million), representing basic earnings per share of 1 074 cents (2011: 1 026 cents). Headline earnings per share were 1 071 cents (2011: 1 024 cents).

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

Dividends

	2012	2011
R million		
Dividend number 50 of 310 cents per share declared on 26 January 2012	106	80
The record date was 9 March 2012 and the dividend was paid on 12 March 2012		
Dividend number 51 of 155 cents per share was declared on 28 June 2012	53	44
The record date was 17 August 2012 and the dividend was paid on 20 August 2012		

On 31 January 2013 the directors declared dividend number 52 of 310 cents per share, being the final dividend in respect of the year ended 30 November 2012. The record date will be Friday, 8 March 2013 and the dividend will be paid on Monday, 11 March 2013.

Subsidiaries

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

Acquisitions and disposals

There were no disposals during the financial year.

The following acquisitions were made:

Acquisition of the trading assets and liabilities of Keys Makin Plastics and Quality Compounds (Keymak)
With effect from 1 March 2012, Hudaco acquired the trading assets and liabilities of Keymak (a manufacturer of flexible PVC hose). The purchase consideration is subject to a maximum of R112 million and includes an initial amount of R52 million paid in cash on 13 June 2012. The balance is payable in three tranches based on actual levels of average profitability achieved in those years. The three tranches are payable in cash on 31 May 2013, 31 May 2014 and 31 May 2015.

Acquisition of the trading assets and liabilities of Proof Engineering and Azolite (Proof Engineering)
With effect from 1 March 2012, Hudaco acquired the trading assets and liabilities of Proof Engineering (a manufacturer of specialised flameproof plugs, sockets and lighting for the mining industry). The purchase consideration, subject to a maximum of R25 million, is to be settled as follows: an initial amount of R10 million was paid in cash on 9 July 2012, and three tranches are payable in cash on 31 May 2013, 31 May 2014 and 31 May 2015 based on actual levels of profitability achieved in each of those years.

Acquisition of the trading assets and liabilities of Deltec Power Distributors and Deltec Africa (Deltec)
With effect from 1 May 2012, Hudaco acquired the trading assets and liabilities of Deltec (a distributor of batteries for automotive and standby applications). The purchase consideration of R42 million was settled in full on 6 July 2012.

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 or its subsidiaries during the period covered by this integrated report.

Authority to buy back shares

Annually the directors seek, and obtain, the approval of the shareholders in 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 annual general meeting in March 2013.

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 stock.

Share capital

The authorised share capital and issued share capital remained unchanged during the year.

Full details of the authorised and issued capital of the company at 30 November 2012 are contained in notes 17.1 and 17.2 to the financial statements.

Share-based remuneration scheme

Full details of the company's share-based remuneration scheme 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.

There were no resignations or new appointments to the board of directors during the period under review.

In terms of the company's memorandum of incorporation, Mrs DD Mokgatle and Messieurs GR Dunford and SG Morris 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 appreciation bonus scheme 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 committee. Further information relating to the remuneration of the directors, together with details relating to share appreciation right allocations are set out in note 27 to the financial statements.

Secretary

Reana Wolmarans is the secretary of the company. The address of the secretary is set out on page 111.

Events after reporting date

The company has received a notice from SARS indicating that they believe that the BEE structure, put in place in 2007, was a scheme designed to avoid tax and that they intend imputing taxable interest on Hudaco and disallowing STC credits arising on the preference dividends received. The board strongly disagrees with the SARS interpretation of the motivation. When the structure was put in place, the board obtained advice from senior counsel that the company's case would stand up to scrutiny. This has been reconfirmed since receiving the notice. If SARS assess, the company will contest the assessment vigorously as the board remains confident of its position. The tax involved amounts to R500 million, including interest but excluding potential penalties.

Borrowing powers

The borrowing powers of the Hudaco group are unlimited. At 30 November 2012, unutilised borrowing facilities amounted to R247 million (2011: R406 million).

Independent auditors' report

To the shareholders of Hudaco Industries Limited

We have audited the consolidated and separate financial statements of Hudaco Industries Limited, as set out on pages 65 to 100, which comprise the consolidated and separate statements of financial position as at 30 November 2012, and the consolidated and separate statements of comprehensive income, consolidated and separate statements of changes in equity and consolidated and separate statements of cash flows for the year then ended, and the notes, comprising a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the financial statements

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

Auditors' responsibility

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

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

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

Opinion

In our opinion, the consolidated and separate financial statements present fairly, in all material respects, the consolidated and separate financial position of Hudaco Industries Limited as at 30 November 2012, and its consolidated and separate financial performance and consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards, and the requirements of the Companies Act of South Africa.

Other reports required by the Companies Act

As part of our audit of the consolidated and separate financial statements for the year ended 30 November 2012, we have read the Directors' Report, Audit and Risk Management Committee's Report and Company Secretary's Certificate for the purpose of identifying whether there are material inconsistencies between these reports and the audited consolidated and separate financial statements. These reports are the responsibility of the respective preparers. Based on reading these reports we have not identified material inconsistencies between these reports and the audited consolidated and separate financial statements. However, we have not audited these reports and accordingly do not express an opinion on these reports.

Grant Thornton

Grant Thornton
Chartered Accountants (SA)
Registered Auditors

C Botha
Partner
Chartered Accountant (SA)
Registered Auditor

31 January 2013

Grant Thornton Office Park
137 Daisy Street
Sandown, 2196
Johannesburg

Group statement of **comprehensive income**

for the year ended 30 November 2012

	Notes	2012 R000	2011 R000
Turnover		3 492 369	3 182 270
Ongoing operations		2 981 424	2 860 685
Operations acquired in 2011 and 2012		510 945	321 585
Cost of sales		2 136 980	1 910 212
Gross profit		1 355 389	1 272 058
Operating expenses	5	918 128	846 193
Operating profit	5	437 261	425 865
Ongoing operations		373 052	377 187
Operations acquired in 2011 and 2012		64 209	48 678
Reversal of impairment on property		840	
Adjustment to fair value of amounts due to vendors of businesses acquired		7 562	
Profit before interest		445 663	425 865
Dividends received on investment in preference shares		201 505	200 954
Interest received			4 555
Finance costs	6	(249 691)	(246 877)
Profit before taxation		397 477	384 497
Taxation	8	46 869	46 653
Profit for the year		350 608	337 844
Other comprehensive income			
Movement on fair value of cash flow hedges		2 489	(746)
Total comprehensive income for the year		353 097	337 098
Profit attributable to:			
– shareholders of the group		339 804	324 404
– non-controlling shareholders		10 804	13 440
		350 608	337 844
Total comprehensive income attributable to:			
– shareholders of the group		342 146	323 658
– non-controlling shareholders		10 951	13 440
		353 097	337 098
Headline earnings per share (cents)	9	1 071	1 024
Diluted headline earnings per share (cents)	9	1 055	1 010
Basic earnings per share (cents)	9	1 074	1 026
Diluted basic earnings per share (cents)	9	1 058	1 012

Group statement of **financial position**

at 30 November 2012

	Notes	2012 R000	2011 R000
Assets			
Non-current assets		3 040 131	2 939 674
Property, plant and equipment	10	205 466	181 983
Investment in preference shares	11	2 180 966	2 180 966
Goodwill	12	593 761	516 107
Intangible assets	13	49 397	49 378
Deferred taxation	14	10 541	11 240
Current assets		1 678 448	1 597 903
Inventories	15	918 668	813 095
Trade and other receivables	16	683 878	616 227
Bank deposits and balances		75 902	168 581
Total assets		4 718 579	4 537 577
Equity and liabilities			
Equity		1 695 872	1 524 754
Interest of shareholders of the group		1 669 811	1 493 950
Non-controlling interest		26 061	30 804
Non-current liabilities		2 243 849	2 306 008
Subordinated debenture	18.1	2 180 966	2 180 966
Finance leases			1 615
Amounts due to vendors of businesses acquired	18.2	62 883	123 427
Current liabilities		778 858	706 815
Trade and other payables	19	591 863	586 329
Finance leases			1 178
Bank overdraft		92 521	
Amounts due to vendors of businesses acquired	18.2	88 202	111 673
Taxation		6 272	7 635
Total equity and liabilities		4 718 579	4 537 577

Group statement of **cash flows**

for the year ended 30 November 2012

	Notes	2012 R000	2011 R000
Cash flow from operating activities			
Operating profit		437 261	425 865
Adjusted for:			
Decrease in equity compensation reserve		(19 132)	(3 417)
Depreciation less profit on disposal of property, plant and equipment		24 325	22 847
Amortisation of intangible assets		16 128	12 838
Increase in working capital	22.1	(121 389)	(128 867)
Cash generated from operations		337 193	329 266
Fair value adjustment of cash flow hedges		2 489	(746)
Taxation paid	22.2	(53 984)	(46 130)
Net cash from operating activities		285 698	282 390
Cash flow from investing activities			
Additions to property, plant and equipment		(42 913)	(69 068)
Proceeds from disposal of property, plant and equipment		3 988	4 947
Acquisition of businesses	20	(105 745)	(117 550)
Payments to vendors of businesses acquired	22.3	(123 604)	(46 229)
Dividends and interest received	22.4	201 505	205 509
Net cash from investing activities		(66 769)	(22 391)
Cash flow from financing activities			
Proceeds from issue of shares			2 393
(Decrease) increase in finance leases		(2 793)	2 793
Finance costs paid	22.5	(238 489)	(233 718)
Dividends paid	22.6	(162 847)	(124 850)
Net cash from financing activities		(404 129)	(353 382)
Net decrease in cash and cash equivalents		(185 200)	(93 383)
Cash and cash equivalents at beginning of the year		168 581	261 964
Cash and cash equivalents at end of the year	22.7	(16 619)	168 581

Group statement of **changes in equity**

for the year ended 30 November 2012

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 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
Increase 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
Balance at 30 November 2011	3 415	51 533	66 249	1 391 459	1 512 656	30 804	1 543 460
Comprehensive income for the year			2 342	339 804	342 146	10 951	353 097
Decrease in equity compensation reserve			(1 564)	(17 568)	(19 132)		(19 132)
Dividends (note 21)				(147 153)	(147 153)	(15 694)	(162 847)
Balance at 30 November 2012	3 415	51 533	67 027	1 566 542	1 688 517	26 061	1 714 578
Less: Shares held by subsidiary company	(251)		(41)	(18 414)	(18 706)		(18 706)
Net balance at 30 November 2012	3 164	51 533	66 986	1 548 128	1 669 811	26 061	1 695 872

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 SAICA Financial Reporting Guides (formerly 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.

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 inter-company 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 an equity-settled share-based compensation plan for senior management including executive directors. The costs of this arrangement are measured by reference to its fair value at the date on which it was 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.

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 re-assessed annually. The gain or loss arising from the derecognition of an item of property, plant and equipment is included in profit when the item is derecognised.

1.13 Capitalisation of leased assets

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

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

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 to the extent that it is probable that future taxable profit will be available against which these unused tax losses can be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the reporting date.

1.18 Inventories

Inventories are valued at the lower of cost and net realisable value. The basis of determining cost is first-in-first-out or weighted average, and includes direct costs and where applicable, a proportion of manufacturing overheads.

1.19 Financial instruments

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

Subsequent to initial recognition these instruments are measured as follows:

- 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 profit 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 that do not form part of a business combination are not recognised, but are disclosed in the notes to the financial statements.

1.23 Segment reporting

Hudaco's businesses have been divided into two primary reportable segments serving distinct markets. 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 did not change any accounting policies or adopt any new standards.

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

At the date of authorisation of these financial statements, certain new standards, amendments and interpretations to existing standards have been published by the IASB but are not yet effective, and have not been adopted early by the group. Management anticipates that all of the relevant pronouncements will be adopted in the group's accounting policies for the first period beginning after the effective date of the pronouncement. Information on new standards, amendments and interpretations that are expected to be relevant to the group's financial statements is provided below. 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.

	2012	2011
	R000	R000
5. Operating profit		
Operating expenses comprise:		
Staff costs	653 555	605 002
Property rentals under operating leases	58 751	54 354
Depreciation	24 953	23 972
Amortisation	16 128	12 838
Profit on disposal of property, plant and equipment	(628)	(1 125)
Acquisition costs – new businesses	1 764	1 172
Other expenses	234 237	208 980
Less: Allocated to cost of sales	(70 632)	(59 000)
	918 128	846 193
Included in other expenses and cost of sales are:		
Gain on translation of foreign currency monetary items	(35)	(7 477)
Cost of fair value hedges	15 159	13 235
6. Finance costs		
Interest paid on subordinated debenture	234 156	233 516
Interest on amounts due to bankers, finance leases and other	4 333	202
Interest imputed on amounts due to vendors of businesses acquired	11 202	13 159
	249 691	246 877
7. Auditors' remuneration		
Audit fees – current year	5 094	4 953
Fees for other services	1 117	798
	6 211	5 751

	2012	2011
	R000	R000
8. Taxation		
8.1 Taxation comprises		
South African normal taxation		
Current year	48 108	48 885
Prior years	3	(2 832)
Deferred taxation		
Current year	(3 753)	(3 990)
Prior years	378	2 597
Secondary tax on companies	1 579	973
Foreign normal taxation – current year	554	1 018
Capital gains tax		2
Total taxation	46 869	46 653
8.2 Reconciliation of rate of taxation	%	%
Normal rate	28,0	28,0
Exempt income	(17,3)	(16,4)
Disallowable expenditure	0,6	0,3
Secondary tax on companies	0,4	0,3
Prior year under (over) provision	0,1	(0,1)
Effective rate of taxation	11,8	12,1
9. Headline earnings and basic earnings per share		
Calculation of headline earnings		
Profit attributable to shareholders of the group	339 804	324 404
Adjusted for:		
Reversal of impairment and profit on disposal of property, plant and equipment	(1 468)	(1 126)
Tax effect	411	315
Non-controlling interest	161	122
Headline earnings	338 908	323 715

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 31 645 703 (2011: 31 617 036) shares in issue during the year, taking account of shares held by a subsidiary.

The calculation of diluted earnings per share is based on 32 123 607 (2011: 32 058 072) shares, being the weighted average number of shares in issue of 31 645 703 plus 477 904 deemed free issue shares. This assumes that any bonus due in terms of the share appreciation bonus scheme is settled in shares at the year end price of R112,00 per share. The number of deemed free issue shares is the difference between the number of shares assumed to have been taken up and the number of shares that could have been acquired with such proceeds less the future IFRS 2 charge on the unvested rights, at the average market price per share.

10. Property, plant and equipment

R000	Freehold land and buildings	Plant	Computers	Motor vehicles	Other assets	2012 Total
Cost						
Opening balance	78 471	65 049	51 521	66 052	30 184	291 277
Acquisition of businesses		12 232	1 090	3 526	1 116	17 964
Additions	1 074	6 153	16 243	14 783	4 660	42 913
Disposals		(3 891)	(571)	(7 905)	(423)	(12 790)
Closing balance	79 545	79 543	68 283	76 456	35 537	339 364
Accumulated depreciation						
Opening balance	4 312	26 673	32 974	29 055	15 280	108 294
Acquisition of businesses		6 803	689	1 605	824	9 921
Depreciation for the year	1 548	5 336	5 679	8 926	3 464	24 953
Disposals		(3 693)	(469)	(4 899)	(369)	(9 430)
Closing balance	5 860	35 119	38 873	34 687	19 199	133 738
Accumulated impairment						
Opening balance	1 000					1 000
Reversal during the year	(840)					(840)
Closing balance	160					160
Net book value	73 525	44 424	29 410	41 769	16 338	205 466

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
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 re-assessed 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.

	2012	2011
	R000	R000
11. Investment in preference shares		
Unlisted securities		
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:		
Goodwill at cost	615 850	538 196
Accumulated impairment	(22 089)	(22 089)
	593 761	516 107
12.2 Movement for the year		
Balance at beginning of the year	516 107	330 718
Adjustment to purchase consideration – Ambro Sales	537	3 392
Acquisitions during the year	77 117	181 997
	593 761	516 107
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	127 685
Keymak	58 520	
Pentagon	43 088	43 088
Powermite	26 589	26 589
Ambro Sales	26 146	25 609
Abes Technoseal	14 435	14 435
Elvey Security Technologies	12 955	12 955
Varispeed	11 586	11 586
Midrand Special Steels	11 224	11 224
Proof Engineering	10 483	
Astore Africa	8 453	8 453
Deltec	8 114	
Other	8 803	8 803
	593 761	516 107

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, Global Communications, Keymak, Pentagon, Ambro Sales, Midrand Special Steels and Proof Engineering 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 (which was accounted for in terms of the previous version of IFRS 3), adjustments to the related goodwill were made if interim and final targets were 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	Supplier contracts	2012 Total
Cost				
Opening balance	61 449	22 234		83 683
Acquisition of businesses	3 965	2 895	9 287	16 147
Closing balance	65 414	25 129	9 287	99 830
Accumulated amortisation				
Opening balance	19 079	4 727		23 806
Amortisation for the year	11 335	2 522	2 271	16 128
Closing balance	30 414	7 249	2 271	39 934
Accumulated impairment				
Opening and closing balance	6 083	4 416		10 499
Net book value	28 917	13 464	7 016	49 397

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
The initial expected useful lives are set within these ranges (years):	3–6	10–14	3–4	

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 upon indication of an impairment.

14. Deferred taxation

14.1 Deferred taxation comprises temporary differences arising from:

	2012 R000	2011 R000
Accelerated capital allowances	(14 675)	(11 716)
Intangible assets	(13 929)	(13 876)
Calculated tax losses	11 267	18 651
Doubtful debt allowances	2 881	2 746
Leave pay accruals	8 679	7 184
Other	16 318	8 251
Net deferred taxation asset	10 541	11 240

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.

	2012	2011
	R000	R000
14. Deferred taxation (continued)		
14.2 Movement for the year		
Balance at beginning of the year	11 240	22 804
Arising on acquisitions during the year	(4 074)	(12 957)
Raised during the year	3 375	1 393
	10 541	11 240
15. Inventories		
Merchandise	862 696	754 035
Raw materials and components	23 026	34 807
Work in progress	32 946	24 007
Finished goods		246
	918 668	813 095
Cost of inventory recognised as an expense in cost of sales	2 066 348	1 851 212
Inventory that is expected to be sold after more than 12 months	93 000	80 000
Write-down of inventory to net realisable value and losses of inventory	5 714	5 495
Amounts removed during the year from the cash flow hedging reserve and included in the initial cost of inventories	1 393	647
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		
Trade receivables	654 832	585 909
Allowance for doubtful receivables	(12 122)	(12 195)
Other receivables and pre-payments	29 261	29 877
Fair value of forward exchange contracts	11 907	12 636
	683 878	616 227
Per category:		
At amortised cost	671 971	603 591
Derivatives used for hedging	11 907	12 636
	683 878	616 227
Allowance for doubtful receivables:		
Balance at beginning of the year	12 195	12 291
Additional allowance charged to profit	6 385	8 686
Allowance reversed to profit	(2 564)	(3 649)
Allowance utilised	(4 205)	(6 331)
Acquisitions during the year	311	1 198
	12 122	12 195
Receivables are reviewed for impairment on an individual basis and factors considered include the nature and credit quality of counterparties as well as disputes regarding price, delivery and quality of product.		
At year end, trade receivables of R82 million (2011: R95 million) were past due but not impaired, being customers of whom there is no recent history of default and are aged as follows:		
Less than 30 days since date due	31 013	47 319
Between 31 and 60 days	18 273	24 616
Between 61 and 90 days	15 960	16 803
More than 90 days	16 747	6 230
	81 993	94 968

	2012	2011
	R000	R000

17. Shareholders' equity

17.1 Authorised share capital

	2012 R000	2011 R000
40 000 000 ordinary shares of 10 cents each	4 000	4 000

17.2 Issued share capital

	2012 R000	2011 R000
34 153 531 ordinary shares	3 415	3 415
Less: 2 507 828 ordinary shares held by subsidiary company – 7,3%	(251)	(251)
Net 31 645 703 ordinary shares	3 164	3 164

17.3 Unissued shares

4 003 000 unissued shares have been made available to the employee share incentive scheme (see note 17.5).

17.4 Retained income

	2012 R000	2011 R000
Income retained in:		
Company	492 682	234 753
Subsidiary companies	1 055 446	1 138 292
	1 548 128	1 373 045

17.5 Employee share-based remuneration scheme

Senior employees, including executive directors, participate in an equity-settled share-based remuneration scheme.

	Number of shares (000)	
	2012	2011
Total specifically authorised to be issued in terms of all schemes	8 000	8 000
Less:		
Shares issued under the share option scheme	3 997	3 997
Beginning of the year	3 997	3 891
During the year		106
Shares available to be granted in terms of share appreciation bonus scheme in the future	4 003	4 003
Less:		
Shares required to meet obligations in terms of the share appreciation bonus scheme[1]	655	579
	3 348	3 424

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

17. Shareholders' equity (continued)

17.5 Employee share-based remuneration scheme (continued)

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)	
	2012	2011	**2012**	2011
Rights not taken up at beginning of the year	**5 826**	5 350	**1 851**	1 898
Rights granted during the year	**10 926**	8 105	**405**	278
Forfeited during the year	**(6 408)**	(6 342)	**(20)**	(79)
Rights exercised during the year	**(4 686)**	(4 549)	**(403)**	(246)
Rights not taken up at end of the year	**7 198**	5 826	**1 833**	1 851
First exercisable in the financial years ending:				
November 2009	**3 975**	3 975	**40**	118
November 2010	**3 975**	4 237	**65**	171
November 2011	**5 701**	5 173	**131**	296
November 2012	**5 690**	5 771	**241**	305
November 2013	**5 992**	6 006	**362**	361
November 2014	**6 282**	6 282	**335**	340
November 2015	**9 046**	7 464	**311**	173
November 2016	**9 866**	8 105	**226**	87
November 2017	**10 926**		**122**	
	7 198	5 826	**1 833**	1 851

Participants in the 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%.

17. Shareholders' equity (continued)

17.5 Employee share-based remuneration scheme (continued)

Cost of share-based payments

Rights in terms of share-based payment scheme 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 appreciation bonus scheme						
	Grant 1	Grant 3	Grant 4	Grant 5	Grant 6	Grant 7	Grant 8
Date of grant	7 Jun 2006	15 Feb 2008	18 Nov 2008	1 Jul 2009	7 Aug 2010	13 Jul 2011	27 Jul 2012
Number of rights granted	793 500	404 767	120 800	578 500	276 333	277 534	405 433
Rights forfeited	(72 500)	(87 998)	(20 000)	(43 000)	(23 500)	(20 000)	
Rights taken up	(560 830)	(84 603)	(80 600)	(30 360)			
Rights still outstanding	160 170	232 166	20 200	505 140	252 833	257 534	405 433
Vested rights	160 170	142 836	12 600	161 310			
Unvested rights		89 330	7 600	343 830	252 833	257 534	405 433
Exercise price (R) – Strike price	39,75[1]	71,45	55,40	50,50	68,09	81,05	109,26
Share price at grant date (R)	47,50	72,00	55,50	55,00	68,99	80,85	108,49
Expected volatility (%)	25	25	25	28	27	34	25
Expected dividend yield (%)	3,8	4,0	4,0	4,0	6,0	5,4	5,2
Risk-free rate (%)	8,2	8,6	8,7	8,6	7,3	7,1	5,9
Vesting period (years)	3 to 5	3 to 5	2 to 5	3 to 5	3 to 5	3 to 5	3 to 5
Estimated fair value per right (R)[2]	13,83	19,83	10,77	16,71	12,84	21,66	20,00

[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.*

	2012	2011
	R000	R000
Employee share-based payment expense included in operating profit		
Expense arising from share appreciation bonus scheme	5 758	6 535

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
Note		24.2.1			
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
Balance at 30 November 2011	332	(1 393)	29 984	37 326	66 249
Decrease in equity compensation reserves			(1 564)		(1 564)
Movement in fair value of cash flow hedges		2 342			2 342
Balance at 30 November 2012	332	949	28 420	37 326	67 027
Less: Shares held by subsidiary company	(41)				(41)
Net balance at 30 November 2012	291	949	28 420	37 326	66 986

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

	2012	2011
	R000	R000

18. Non-current liabilities

18.1 Subordinated debenture

	2012 R000	2011 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 debentures is secured by a pledge over the group's investment in preference shares (note 11).	2 180 966	2 180 966
	2 180 966	2 180 966

18.2 Amounts due to vendors of businesses acquired

	2012 R000	2011 R000
Estimated amount due to the vendors of Keymak acquired in 2012. The amount includes imputed interest at 5,3% per annum. The amount finally payable is subject to adjustment based on earnings of the business, up to February 2015. The adjustment will be debited or credited to profit when it is determined.	25 943	
Estimated amount due to the vendors of Proof Engineering acquired in 2012. The amount includes imputed interest at 5,3% per annum. The amount finally payable is subject to adjustment based on earnings of the business, up to February 2015. The adjustment will be debited or credited to profit when it is determined.	11 280	
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. The adjustment will be debited or credited to profit when it is determined.	52 138	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. The adjustment will be debited or credited to profit when it is determined.	31 195	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. The adjustment will be debited or credited to profit when it is determined.	30 529	83 833
Estimated amount due to the vendors of Midrand Special Steels acquired in 2011.		13 084
Estimated amount due to the vendors of Ambro Sales acquired in 2008.		5 978
Total interest-bearing liabilities	151 085	235 100
Less: Payable within 12 months	88 202	111 673
	62 883	123 427

19. Trade and other payables

	2012 R000	2011 R000
Trade payables	431 631	384 497
Other payables	160 232	201 832
	591 863	586 329

Included in other payables are payroll and other accruals.

All trade and other payables are measured at amortised cost.

20. Acquisition of businesses

	Keymak	Deltec	Proof Engineering	R000 Total	R000 Total
R000				2012	2011
Effective date of control	1 May 2012	1 Jul 2012	1 Jul 2012		
Fair value of assets acquired:					
Plant and equipment	327	2 075	5 641	8 043	9 975
Goodwill	58 520	8 114	10 483	77 117	181 997
Intangible assets	13 396	1 357	1 394	16 147	28 522
Cash and cash equivalents (bank overdraft)	4 394	(6 130)	149	(1 587)	(9 928)
Inventories	1 940	35 635	5 857	43 432	43 875
Trade and other receivables	7 130	22 103	7 695	36 928	70 773
Trade and other payables	(3 726)	(20 587)	(9 746)	(34 059)	(66 416)
Taxation	(738)	(1 639)		(2 377)	
Deferred taxation	(4 094)	572	(552)	(4 074)	(12 957)
Net operating assets acquired	77 149	41 500	20 921	139 570	245 841
(Cash and cash equivalents) borrowings assumed	(4 394)	6 130	(149)	1 587	9 928
Balance owed to vendors	(24 704)		(10 708)	(35 412)	(138 219)
Net cash outflow on acquisitions	48 051	47 630	10 064	105 745	117 550

	2012	2011
	R000	R000
Profit after tax since acquisition date included in the consolidated results for the year	12 018	29 924
Turnover since acquisition date included in the consolidated results for the year	131 741	321 585
Group profit after tax had the business combinations been included for the entire year	357 579	343 546
Group turnover had the business combinations been included for the entire year	3 614 890	3 224 188

21. Dividends

Dividend number 50 of 310 cents per share declared on 26 January 2012	105 876	80 237
The record date was 9 March 2012 and the dividend was paid on 12 March 2012		
Dividend number 51 of 155 cents per share declared on 28 June 2012	52 938	44 400
The record date was 17 August 2012 and the dividend was paid on 20 August 2012		
Dividends paid to subsidiary company	(11 661)	(9 154)
	147 153	115 483

On 31 January 2013 the directors declared dividend number 52 of 310 cents per share, being the final dividend in respect of the year ended 30 November 2012. The record date will be 8 March 2013 and the dividend will be paid on 11 March 2013. This dividend has not been included as a liability in these financial statements.

	2012	2011
	R000	R000

22. Notes to the statement of cash flows

22.1 Increase in working capital

	2012 R000	2011 R000
Increase in inventories	(62 141)	(106 274)
Increase in trade and other receivables	(30 723)	(122 614)
(Decrease) increase in trade and other payables	(28 525)	100 021
	(121 389)	(128 867)

22.2 Taxation paid

	2012 R000	2011 R000
Amounts owed at beginning of the year	(7 635)	(5 719)
Current tax charge	(48 108)	(48 885)
Prior year (under) over provision	(3)	2 832
Secondary tax on companies	(1 579)	(973)
Foreign tax charge	(554)	(1 018)
Capital gains tax		(2)
Acquired during the year	(2 377)	
Amounts owed at end of the year	6 272	7 635
	(53 984)	(46 130)

22.3 Payments to vendors of businesses acquired

	2012 R000	2011 R000
Amounts owed at beginning of the year	(235 100)	(126 559)
Interest imputed on amounts owed	(11 202)	(13 159)
Acquisitions during the year	(35 412)	(138 219)
Adjustment to purchase price debited to goodwill	(537)	(3 392)
Adjustment to purchase price credited to statement of comprehensive income	7 562	
Amounts owed at end of the year	151 085	235 100
	(123 604)	(46 229)

22.4 Dividends and interest received

	2012 R000	2011 R000
Dividends	201 505	200 954
Interest		4 555
	201 505	205 509

22.5 Finance costs paid

	2012 R000	2011 R000
Finance costs	(249 691)	(246 877)
Imputed on amounts due to vendors of businesses acquired	11 202	13 159
	(238 489)	(233 718)

22.6 Dividends paid

	2012 R000	2011 R000
To shareholders of the group	(147 153)	(115 483)
To non-controlling shareholders	(15 694)	(9 367)
	(162 847)	(124 850)

22.7 Cash and cash equivalents

	2012 R000	2011 R000
Bank deposits and balances	75 902	168 581
Bank overdraft	(92 521)	
	(16 619)	168 581

	2012	2011
	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:

	2012 R000	2011 R000
Within one year	61 682	45 570
Payable in second to fifth years	105 195	70 583
Payable thereafter	1 458	7 266
	168 335	123 419

23.2 Property, plant and equipment

The group has budgeted to spend R50 million to acquire property, plant and equipment in 2013, 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.

23.3 Taxation

	2012 R000	2011 R000
Potential liability for taxation relating to BEE structure. Refer to events after reporting date in directors' report on page 63	500 000	

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

	2012 R000	2011 R000
Financial assets by class:		
Investment in preference shares	2 180 966	2 180 966
Trade receivables	642 710	573 714
Other receivables and pre-payments	29 261	29 877
Fair value of forward exchange contracts	11 907	12 636
Bank deposits and balances	75 902	168 581
	2 940 746	2 965 774
Financial assets by category:		
At amortised cost	2 928 839	2 953 138
Derivatives used for hedging	11 907	12 636
	2 940 746	2 965 774

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. Financial instruments (continued)

24.1 Summary of financial instruments (continued)

24.1.1 Carrying value of financial instruments (continued)

	2012 R000	2011 R000
Financial liabilities by class:		
Subordinated debenture	2 180 966	2 180 966
Finance leases		2 793
Amounts due to vendors of businesses acquired	151 085	235 100
Bank overdraft	92 521	
Trade payables	431 631	384 497
Other payables	160 232	201 832
	3 016 435	3 005 188

** Financial liabilities by category.*

All financial liabilities are measured at amortised cost.

24.1.2 Fair value of financial instruments

	2012 R000	2011 R000
Financial assets by class:		
Investment in preference shares – including related put option	2 389 660	2 301 020
Trade receivables	642 710	573 714
Other receivables and pre-payments	29 261	29 877
Bank deposits and balances	75 902	168 581
Fair value of forward exchange contracts	11 907	12 636
	3 149 440	3 085 828
Financial liabilities by class:		
Subordinated debenture	2 208 462	1 992 394
Finance leases		2 793
Amounts due to vendors of businesses acquired	151 085	235 100
Bank overdraft	92 521	
Trade payables	431 631	384 497
Other payables	160 232	201 832
	3 043 931	2 816 616

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 bank deposits and balances, receivables, payables and forward exchange contracts 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 approximately 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 2012 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	9,25	91 822	9,29	9 886
US Dollar	8,90	2 969	8,84	26 244
Pound Sterling	14,28	612	13,95	8 544
Euro	11,60	3 077	11,38	35 006
Total cost of contracts				79 680
Fair value – Rand equivalent of the above contracts at year end spot rates				80 776
Profit recognised directly in equity on import orders (note 17.6)				1 096
Attributable to non-controlling shareholders				(147)
Attributable to shareholders of the group				949

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 the impact of a simultaneous 10% change in all foreign currency exchange rates against the Rand (the functional currency) on the fair value of the net monetary assets of the group and profit or loss after taxation will be negligible.

	2012	2011
	R000	R000
Net foreign currency monetary assets:		
Functional currency of group operation	Pound Sterling	Pound Sterling
Japanese Yen	442	12 796
US Dollar		236
Euro	40	9 277
	482	22 309

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	2012	2011
		%	R000	R000
Subordinated debenture	2017	10,7	2 180 966	2 180 966
Finance leases		6,2 – 9,0		2 793
Amounts due to vendors of businesses acquired:				
– Keymak	2013 – 2015	5,3	25 943	
– Proof Engineering	2013 – 2015	5,3	11 280	
– Pentagon	2013 – 2014	5,2	31 195	30 386
– Global Communications	2013	5,2	52 138	101 819
– Filter and Hose Solutions	2013	5,5	30 529	83 833
– Midrand Special Steels		5,2		13 084
– Ambro Sales		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:

	2012	2011
	R000	R000
Investment in preference shares	2 180 966	2 180 966
Trade receivables	642 710	573 714
Other receivables and pre-payments	29 261	29 877
Fair value of forward exchange contracts	11 907	12 636
Bank deposits and balances	75 902	168 581
	2 940 746	2 965 774

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 2012 were R247 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 2012 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	
	2012	2013	2014 to 2017
	R000	R000	R000
Subordinated debenture	2 180 966		2 180 966
Amounts due to vendors of businesses acquired	151 085	88 202	62 883
Bank overdraft	92 521	92 521	
Trade payables	431 631	431 631	
Other payables	160 232	160 232	

	2012	2011
	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)	1 096	(1 393)
Fair value hedges (on contracts of R358 million at year end spot rates)	10 811	14 029
	11 907	12 636

The book value of all non-derivative financial instruments approximates their fair value at 30 November 2012.

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 it is planned that 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 has been 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 R28 278 000 (2011: R29 810 000). 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. It has been resolved by the trustees of the separate plans that members will transfer to umbrella funds administered by Old Mutual during 2013.

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	
	2012	2011	**2012**	2011
RT Vice	**4 000**	4 000		
SJ Connelly	**207 638**	308 967	**1 680**	1 680
CV Amoils			**7 500**	7 500
GR Dunford	**10 000**	10 000		
	221 638	322 967	**9 180**	9 180

The shareholdings above have not changed between 30 November 2012 and the date of the notice of the annual general meeting.

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
2012									
SJ Connelly	550 500		30 000	175 000	405 500				11 669
	175 000	39,75		175 000		6 Jul '06	3	Jul '09 – Jul '15	11 669
	100 000	71,45			100 000	15 Feb '08	3	Feb '11 – Feb '17	
	155 000	50,50			155 000	1 Jul '09	3	Jul '12 – Jul '18	
	62 500	68,09			62 500	7 Aug '10	3	Aug '13 – Aug '19	
	58 000	81,05			58 000	13 Jul '11	3	Jul '14 – Jul '20	
		109,26	30 000		30 000	27 Jul '12	2	Jul '15 – Jul '20	
CV Amoils	122 000		30 000		152 000				
	65 000	50,50			65 000	1 Jul '09	3	Jul '12 – Jul '18	
	30 000	68,09			30 000	7 Aug '10	3	Aug '13 – Aug '19	
	27 000	81,05			27 000	13 Jul '11	3	Jul '14 – Jul '20	
		109,26	30 000		30 000	27 Jul '12	3	Jul '15 – Jul '21	
GR Dunford	181 500		32 000		213 500				
	65 000	39,75			65 000	6 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	1 Jul '09	3	Jul '12 – Jul '18	
	25 500	68,09			25 500	7 Aug '10	3	Aug '13 – Aug '19	
	26 000	81,05			26 000	13 Jul '11	3	Jul '14 – Jul '20	
		109,26	32 000		32 000	27 Jul '12	3	Jul '15 – Jul '21	
	854 000		92 000	175 000	771 000				11 669

[1] *This represents the difference between the market price and the strike price on the date the rights were taken up.*

27. Directors' interests and remuneration (continued)

27.2 Directors' interests in share appreciation bonus scheme (continued)

	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	6 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	1 Jul '09	3	Jul '12 – Jul '18	
	62 500	68,09			62 500	7 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	1 Jul '09	3	Jul '12 – Jul '18	
	30 000	68,09			30 000	7 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	6 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	1 Jul '09	3	Jul '12 – Jul '18	
	25 500	68,09			25 500	7 Aug '10	3	Aug '13 – Aug '19	
		81,05	26 000		26 000	13 Jul '11	3	Jul '14 – Jul '20	
GE Gardiner[2]	71 333			71 333					2 770
	20 000	39,75		20 000		6 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

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 headline earnings per share during the period, of CPI plus 5%.

[1] *This represents the difference between the market price and the strike price on the date the rights were taken up.*

[2] *Retired on 31 July 2011.*

27. Directors' interests and remuneration (continued)

27.3 Directors' emoluments

Non-executive directors	Base fee	Attendance fee	Total remuneration
R000			
2012			
RT Vice	562	121	683
DD Mokgatle	184	115	299
SG Morris	238	143	381
D Naidoo	212	148	360
	1 196	527	1 723
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

[(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 for the year	Bonus on share appreciation rights excercised[(2)]
R000								
2012								
SJ Connelly	3 165	386	514	2 880	6 945	1 297	8 242	11 669
CV Amoils	1 709	214	324	1 596	3 843	531	4 374	
GR Dunford	1 772	243	232	2 169	4 416	478	4 894	
	6 646	843	1 070	6 645	15 204	2 306	17 510	11 669
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[(3)]	1 017	132	731	1 200	3 080	124	3 204	2 770
	7 067	915	1 724	9 695	19 401	2 483	21 884	2 770

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

[(2)] *This represents the difference between the market price and the strike price on the date the rights were excercised. The fair value of the rights has been expensed in prior years in terms of IFRS 2.*

[(3)] *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 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.

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

	2012	2011
	R000	R000
Compensation of key management personnel		
Short-term employee benefits	28 904	35 928
Share-based payments[1]	3 235	3 906
	32 139	39 834

Directors

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

	2012	2011
	R000	R000
Interests in contracts and transactions with key management personnel		
Goods bought from companies controlled by key management	2 369	132
Goods sold to companies controlled by key management	140	381

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 282 113 (2011: R1 176 260). This lease expires on 31 December 2016. Rental paid in respect of the Powermite branch amounted to R407 301 (2011: R349 070). This lease is due to expire on 28 February 2014.

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

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

29. Segment information

R million	Group 2012	Group 2011	Head office, shared services and eliminations 2012	Head office, shared services and eliminations 2011	Engineering consumables 2012	Engineering consumables 2011	Consumer-related products 2012	Consumer-related products 2011
Statement of net income								
Turnover	**3 492**	3 182	**(11)**	(11)	**2 280**	2 187	**1 223**	1 006
– Ongoing operations	**2 981**	2 860	**(11)**	(11)	**2 157**	2 112	**835**	759
– Operations acquired in 2011 and 2012	**511**	322			**123**	75	**388**	247
EBITDA	**477**	462	**(10)**	(10)	**307**	298	**180**	174
Depreciation less recoupments	**24**	23	**2**	1	**16**	16	**6**	6
Amortisation of intangible assets	**16**	13			**11**	8	**5**	5
Operating profit	**437**	426	**(12)**	(11)	**280**	274	**169**	163
– Ongoing operations	**373**	377	**(12)**	(11)	**266**	267	**119**	121
– Operations acquired in 2011 and 2012	**64**	49			**14**	7	**50**	42
Reversal of impairment on property	**1**						**1**	
Fair value adjustment to amounts due to vendors	**8**				**8**			
Profit before interest and dividends received	**446**	426	**(12)**	(11)	**288**	274	**170**	163
Statement of financial position								
Property, plant and equipment	**205**	182	**1**	1	**172**	154	**32**	27
Goodwill	**594**	517			**388**	318	**206**	199
Intangible assets	**49**	49			**32**	28	**17**	21
Deferred taxation – net	**10**	12	**18**	25	**(5)**	(7)	**(3)**	(6)
Inventories	**919**	813			**623**	588	**296**	225
Trade and other receivables	**684**	616	**12**	11	**376**	373	**296**	232
Trade and other payables	**(592)**	(587)	**(22)**	(18)	**(308)**	(331)	**(262)**	(238)
Taxation	**(6)**	(9)	**65**	61	**(42)**	(42)	**(29)**	(28)
Net operating assets	**1 863**	1 593	**74**	80	**1 236**	1 081	**553**	432
Additional information								
Average net operating assets	**1 773**	1 469	**117**	10	**1 169**	1 093	**487**	366
Capital expenditure	**43**	69	**1**	2	**36**	62	**6**	5
Operating profit margin (%)	**12,5**	13,4			**12,3**	12,5	**13,8**	16,2
Return on average net operating assets (%)	**24,6**	29,0			**24,0**	25,1	**34,7**	44,5
Number of permanent employees	**2 588**	2 469	**25**	20	**1 878**	1 811	**685**	638

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.

	2012	2011
	R000	R000

Hudaco Industries Limited

Statement of financial position

at 30 November 2012

	2012 R000	2011 R000
Assets		
Non-current assets		
Interest in subsidiaries (note 1)	548 630	291 457
Current assets	269	286
Receivables	267	286
Cash and cash equivalents	2	
Total assets	548 899	291 743
Equity and liabilities		
Shareholders' equity	547 962	290 033
Current liabilities		
Payables and taxation	937	1 710
Total equity and liabilities	548 899	291 743

Statement of comprehensive income

for the year ended 30 November 2012

	2012 R000	2011 R000
Dividends received from subsidiaries	419 037	30 645
Interest received		53
Operating costs	2 294	2 337
Profit before taxation	416 743	28 361
Taxation – South African normal tax		515
Profit after taxation	416 743	27 846

Statement of changes in equity

for the year ended 30 November 2012

R000	Share capital	Share premium	Special reserve account*	Retained income	Shareholders' equity
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
Profit after taxation				416 743	416 743
Dividends to shareholders				(147 153)	(147 153)
Dividends to subsidiary				(11 661)	(11 661)
Balance at 30 November 2012	3 415	51 533	332	492 682	547 962

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

	2012	2011
	R000	R000

Statement of cash flows

for the year ended 30 November 2012

	2012 R000	2011 R000
Cash generated from operating activities		
Dividends and interest received	419 037	30 645
Proceeds from capital reduction in subsidiary	18 584	24 097
Interest received		53
Operating costs paid	(2 294)	(2 337)
(Increase) decrease in working capital	(241)	270
Cash generated from operating activities	435 086	52 728
Taxation paid	(513)	(156)
Cash flow from operations	434 573	52 572
Dividends	(158 814)	(124 637)
Net cash retained (applied)	275 759	(72 065)
Cash applied to investment activities		
(Increase) decrease in loans to subsidiary companies	(275 757)	69 665
Net cash retained (applied)	2	(2 400)
Cash flow from financing activities		
Proceeds from the issue of shares		2 393
(Increase) decrease in cash and cash equivalents	(2)	7
Net financing (repaid) raised	(2)	2 400

	2012	2011
	R000	R000

Notes to the company financial statements

1. Interest in subsidiaries

	2012 R000	2011 R000
Shares at cost less amounts written off	92 275	110 859
Loans to subsidiaries	456 355	180 598
	548 630	291 457

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.

2. Auditors' remuneration

	2012 R000	2011 R000
Audit fees for the current year	100	95

3. Contingent liability

The company has guaranteed the senior banking facilities of Hudaco Trading (Pty) Ltd. The maximum exposure in this regard is approximately R530 million and the exposure is R210 million at year end.

Principal **subsidiaries**

at 30 November 2012

	Issued share capital 2012 R unless indicated otherwise	Interest of holding company					
		Group's effective interest		Book value of shares		Loans owing by	
		2012	2011	2012	2011	2012	2011
		%	%	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							
Deltec							
Elvey Security Technologies							
Ernest Lowe							
Filter and Hose Solutions							
Global Communications							
Keymak							
Midrand Special Steels							
Pentagon							
Powermite							
Proof Engineering							
Rutherford							
Varispeed							
Hudaco Investment Company Limited	26 160	100	100	48 158	48 158	456 355	180 485
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		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				92 275	110 859	456 355	180 598

[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:** ZAE000003273
("Hudaco" or "the company")

Notice to shareholders of the 28th Annual General Meeting (AGM) of Hudaco Industries Limited

Notice is hereby given that the 28th AGM of shareholders of the company for the year ended 30 November 2012 will be held at 11:00 on Thursday, 28 March 2013 in the boardroom at Hudaco's corporate offices situated at Building 9, Greenstone Hill Office Park, Emerald Boulevard, Greenstone Hill, Edenvale. Registration for attendance will commence at 10:30.

AGM participants are required to provide identification before being entitled to attend or participate at the AGM. Acceptable forms of identification include valid identity documents, driver's licences and passports.

Important dates and times[1]	2013
Record date for determining which shareholders are entitled to receive the AGM notice	Friday, 15 February
Notice posted to shareholders on	Tuesday, 26 February
Record date for attending and voting at the AGM[2]	Friday, 22 March
Last day for shareholders to lodge forms of proxy for the AGM by 11:00	Wednesday, 27 March
AGM to be held at 11:00	Thursday, 28 March
Results of AGM to be released on SENS on	Thursday, 28 March

Notes

1. All times referred in this notice are local times in South Africa and any material variation of the above dates and times will be released on SENS and published in the press.

2. The Hudaco board of directors ("the board") has determined that the record date for the purpose of determining which shareholders are entitled to receive the AGM notice is Friday,15 February 2013, and the record date for purposes of determining which shareholders of the company are entitled to participate and vote at the AGM is Friday, 22 March 2013. Accordingly, only shareholders who are recorded as such in the register maintained by the transfer secretaries of the company on Friday, 22 March 2013 will be entitled to participate in and vote at the AGM.

Business to be transacted

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

1. To present the audited consolidated financial statements of the company and of the Hudaco group (as approved by the board), incorporating the external auditor, audit and risk management committee and directors' reports for the financial year ended 30 November 2012, distributed as required.

Copies of the full audited consolidated annual financial statements for the year ended 30 November 2012 are obtainable from the company's website: www.hudaco.co.za

2. Ordinary Resolution Number 1: to re-elect directors retiring by rotation

To re-elect as directors, each by way of a separate vote, the following directors who are required to retire in terms of articles 54.1 and 54.2 of the company's Memorandum of Incorporation ("MOI") and who are eligible and have offered themselves for re-election.

2.1 Ordinary Resolution Number 1.1: re-election of Mr GR Dunford;
2.2 Ordinary Resolution Number 1.2: re-election of Mrs DD Mokgatle; and
2.3 Ordinary Resolution Number 1.3: re-election of Mr SG Morris.

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. It is the view of the board that re-election of the candidates 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 54.1 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 shall retire shall be the longest serving directors since their last election. Brief curricula vitae of directors who have offered themselves for re-election are included on pages 4 and 5 of the integrated report, of which this AGM notice forms part.

3. **Ordinary Resolution Number 2: appointment of the members of the audit and risk management committee**
To elect each by way of separate votes, the members of the audit and risk management committee of the company, with effect from the end of the AGM:
   - 3.1 Ordinary Resolution Number 2.1: to elect Mr SG Morris as member and chairman, subject to the passing of Ordinary Resolution Number 1.3;
   - 3.2 Ordinary Resolution Number 2.2: to elect Mrs DD Mokgatle as member, subject to the passing of Ordinary Resolution Number 1.2; and
   - 3.3 Ordinary Resolution Number 2.3: to elect Ms D Naidoo as member.

Under the Companies Act the audit committee is a committee elected by the shareholders at each AGM. A brief *curriculum vitae* of each of the independent non-executive directors mentioned above appears on either page 4 or page 5 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 members of the audit and risk management committee.

4. **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 2013 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, 71 of 2008 ("the Companies Act"), and the Companies Regulations 2011, and has accordingly nominated Grant Thornton for re-appointment as auditors of the company.

5. **Ordinary Resolution Number 4: ratification of appointment of social and ethics committee**
That the appointment of the Hudaco social and ethics committee by the board of the company in accordance with Regulation 43(3)(a)(i) of the Companies Act, with effect from 1 March 2012, be and it is hereby ratified.

At a Hudaco board meeting held on 27 October 2011, the board appointed a social and ethics committee, whose first members are Ms D Naidoo (chairman), and Messrs CV Amoils and GR Dunford. All three members are directors of Hudaco and satisfy the criteria for membership of this committee as required by Regulation 43(4) of the Companies Act.

A brief *curriculum vitae* of each of the members mentioned above appears on either page 4 or page 5 of this integrated report. The report of the social and ethics committee appears on pages 56 to 57.

6. **Special Resolution Number 1: approval of non-executive directors' remuneration**
That the remuneration payable to the non-executive directors of Hudaco for their services as directors be and it is hereby approved as set out below for the period 1 April 2013 until 31 March 2014.

	Proposed 2013		2012	
	Base fee	Penalty for non-attendance	Base fee	Attendance fee per normal meeting
R				
Board				
Chairman of the board	R650 000	R15 000	R462 000	R22 000
Board member	R200 000	R10 000	R110 000	R16 500
Audit and risk management committee				
Chairman of the committee	R175 000	R15 000	R100 000	R16 500
Committee member	R95 000	R10 000	R50 000	R11 000
Remuneration and nomination committee				
Chairman	R140 000	R15 000	R100 000	R11 000
Committee member	R60 000	R10 000	R27 500	R11 000
Social and ethics committee				
Chairman	R105 000	R15 000	R60 000	R16 500

The penalty incurred for non-attendance as chairman of a meeting would be paid to the member who stood in as chairman at that meeting.
The fee for additional meetings would be: Chairman – R20 000, Member – R15 000.

Reason and effect of Special Resolution Number 1

This resolution is proposed in order to comply with the requirements of the Companies Act. In terms of section 65(11)(h) of the Companies Act, read with sections 66(8) and 66(9), remuneration may only be paid to directors for their services as directors in accordance with a special resolution approved by the shareholders within the previous two years and only if this is not prohibited in terms of the company's MOI.

Therefore the reason for and effect of Special Resolution Number 1 is to approve the payment of and the basis for calculating the remuneration payable by Hudaco to its non-executive directors for their services as directors of the company for the period 1 April 2013 until 31 March 2014. The fees payable to the non-executive directors are detailed above. Further details on the basis for determining remuneration are included in the remuneration report on pages 50 to 52 of this integrated report

7. 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 50 to 52 of this integrated report.

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

8. 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 Limited ("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, provided that no such financial assistance may be provided at any time in terms of this authority after the expiry of two years from the adoption of this Special Resolution Number 2.

Reason and effect of Special Resolution Number 2

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 a related or inter-related company, 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 counterparties, 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. Special Resolution Number 2 will enable the company to provide such financial assistance to subsidiaries and juristic persons in the Hudaco group that is or becomes related or inter-related to the company for any purpose in the normal course of business.

9. 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 ("ordinary shares") in terms of section 48 of the Companies Act and the JSE Listings Requirements, being that:

- any such acquisition of ordinary shares shall be effected through the order book operated by the JSE trading system and done without any prior understanding or arrangement between Hudaco and the counterparty;
- this general authority shall be valid until Hudaco's next AGM, provided that it shall not extend beyond 15 (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 ordinary 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 Number 3;
- ordinary shares may not be acquired at a price greater than 10% above the weighted average of the market value at which such ordinary shares are traded on the JSE as determined over the 5 (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 to 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 ordinary shares during a prohibited period as defined by the JSE Listings Requirements unless a repurchase programme is in place, where the dates and quantities of ordinary shares to be traded during the prohibited period are fixed and full details of the programme have been 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 months after the date of this notice of AGM:

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

Reason and effect of Special Resolution Number 3

The reason for and effect of this special resolution is to grant the directors of Hudaco a general authority in terms of the Companies Act and the JSE Listings Requirements for the repurchase by Hudaco, or a subsidiary of Hudaco, of ordinary shares.

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

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

- directors and management – pages 4 to 7;
- major beneficial shareholders – page 35;
- directors' interests in securities – pages 93 to 95; and
- share capital of the company – note 17 on page 81.

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 AGM 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 unless the South African Revenue Service persists with its view that additional tax is payable in connection with the group's Black Economic Empowerment structure (refer to pages 33 and 34 of this integrated report).

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 Number 3 and certify that, to the best of their knowledge and belief, there are no facts that have been omitted which would make any statements false or misleading, and that all reasonable enquiries to ascertain such facts have been made and that this Special Resolution Number 3 contains all information required by law and the JSE Listings Requirements.

Material changes

Other than the facts and developments reported on in this integrated report, there have been no material changes in the affairs or financial position of Hudaco and its subsidiaries since the date of signature of the audit report and up to the date of this AGM notice.

10. Special Resolution Number 4: adoption of new MOI

That the existing memorandum and articles of association of the company, be and are hereby substituted in their entirety by the MOI, signed by the chairman of the AGM on the first page thereof for identification purposes, with effect from the date of filing of the required notice of amendment with the Companies and Intellectual Property Commission.

Reason and effect of Special Resolution Number 4

With the promulgation of the Companies Act the company is required to adopt and file a MOI within a period of two years from 1 May 2011, to bring its constitutional documents in line with the Companies Act. It is a requirement that the company adopt a new MOI to replace its existing memorandum and articles of association in its entirety. Special Resolution Number 4 is therefore proposed in order to adopt a new MOI in substitution for the existing memorandum and articles of association.

The company has complied with the unalterable provisions of the Companies Act and the JSE Listings Requirements.

The complete new MOI will lie for inspection at the company's registered office from 26 February 2013 to 28 March 2013 or any adjourned meeting.

The salient features of the new MOI are as follows:

No	Theme or clause	Existing regime	Proposed regime
1.	The MOI as the founding document of the company.	The key founding document of the company, the memorandum of association, determines the nature and scope of the company. The rights, duties and powers of the directors and the general meeting of members are, *inter alia,* set out in the Articles of Association.	The Companies Act abolishes the distinction between the memorandum of association and the articles of association. It provides that in future there will only be one founding document, namely the MOI.
2.	The company's objects. Clause 5 of the new MOI.	The provisions regulating the operations of the company are currently set out in the existing memorandum and articles. In the past, a company's objects were stated in its memorandum of association. They were important in giving the company means to operate in the specific fields set by its shareholders.	Over time the objects came to be expressed in such wide terms as to provide no real limit on what a company could do. The Companies Act recognises this and has abolished the need to have object provisions and states that unless a company's MOI provides otherwise, a company's objectives are unrestricted. For this reason the company is proposing to have no objects clause. The new MOI clarifies that the company is prohibited from claiming a lien on its securities. This is a requirements in terms of paragraph 10.12 of Schedule 10 to the JSE Listings Requirements.
3.	The structure of the new MOI.		The new MOI consists of five parts, namely: Part I: Interpretation and Background Part II: Capital, Certificates and Distributions Part III: Decision-making by Shareholders Part IV: Directors, Committees, Prescribed Officers and Indemnity Part V: Administrative Arrangements

No	Theme or clause	Existing regime	Proposed regime
4.	Amendments to the MOI. Clauses 5.1 to 5.4 and clause 6.	Detailed provisions for amendments were not included under the existing memorandum and articles.	These clauses set out the procedures to be followed to amend the MOI as required by the Companies Act and the JSE Listings Requirements. The three key requirements are: (i) approval from the JSE; (ii) a special resolution passed by the shareholders; and (iii) file notice of amendment with the Commission.
5.	Power to make any rules relating to the governance of the company. Clause 6.6.	No such provision included under the existing memorandum and articles.	In line with the requirements of the JSE Listings Requirements the board of directors of the company does not have the power to make any rules relating to the governance of the company. (Paragraph 10.4 of Schedule 10 to the JSE Listings Requirements.)
6.	Authorised share capital. Clause 9.1.	The authorised share capital is set out in the existing memorandum of association of the company.	The Companies Act abolishes the distinction between the memorandum of association and articles of association. Accordingly the authorised share capital of the company is set out in clause 9.1.
7.	Issue of shares for cash and options and convertible securities granted/issued for cash. Clauses 10.1 and 10.2.	No such provision included under the existing memorandum and articles.	In terms of paragraph 10.9(a) of the JSE Listings Requirements the issue of shares for cash and options and convertible securities granted/issued for cash must be provided for in the MOI.
8.	Allotment and issue of securities. Clause 10.2.	No such provision included under the existing memorandum and articles.	In terms of section 41(1) of the Companies Act, the issue of certain securities to a director, future director, prescribed officer or future prescribed officer, person related or inter-related to the company or to a director or prescribed officer, must be approved by a special resolution.
9.	Allotment and issue of securities. Clause 10.2.	No such provision included under the existing memorandum and articles.	In terms of section 41(3) of the Companies Act, the issue of certain securities must be approved by a special resolution, if the voting power of the class of shares that are issued or issuable will equal 30% of the voting power of the shares of that class.
10.	Issue of secured or unsecured Debt instruments. Clause 10.3.	Article 44 of the exiting articles provides that the directors may issue debentures or debenture stock, whether secured or unsecured, whether outright or as security for any debt, liability or obligation of the company or any third party.	Clause 10.3.1 is in line with the JSE Listings Requirements and provides that the company may not grant special privileges relating to the attending and voting at shareholder meetings or the appointment of directors in relation to debt instruments. (Paragraph 10.10 of Schedule 10 to the JSE Listings Requirements.)
11.	The issue of securities. Clause 10.4.	In terms of Article 3 of the existing articles, the shareholders by ordinary resolution may authorise the directors to issue any unissued shares.	In terms of clause 10(4) the issue of other securities by the board of directors will only be allowed with the prior approval of an ordinary resolution of shareholders.
12.	Pre-emption on issue of equity securities. Clause 11.1.	No such provision included under the existing memorandum and articles.	Paragraph 10.1 of Schedule 10 to the JSE Listings Requirements requires that unissued equity securities shall be offered to existing shareholders, *pro rata* to their shareholdings.

No	Theme or clause	Existing regime	Proposed regime
13.	Alteration of capital. Clause 6.5.	Article 13 of the existing articles listed what powers the company has in relation to the alteration of capital.	Clause 6.5 contains detailed provisions regarding the alteration of capital.
14.	Alteration of capital. Clause 6.5.	Article 13 of the existing articles listed what powers the company has in relation to the alteration of capital.	The wording inserted in clause 6.5 is required in terms of the JSE Listings Requirements. (Paragraph 10.5(d) of Schedule 10 to the JSE Listings Requirements.)
15.	Acquisition by the company of securities in the company or its holding company. Clause 16.	Article 13A of the existing articles listed what powers the company has in relation to the acquisition of its own shares, similar to the new MOI.	Clause 16 of the MOI is in line with paragraph 10(9)(b) of the JSE Listings Requirements regulating the repurchase of securities.
16.	Payment of commission. Clause 17.	Article 5 of the existing articles authorised the payment of commission.	Paragraph 10.14 of the JSE Listings Requirements provides that the company may not pay commission exceeding 10%.
17.	Odd-lot offers. Clause 18.	No such provision included under the existing memorandum and articles.	Clause 18 contains detailed provisions regarding the making of odd-lot offers.
18.	Unclaimed dividends. Clause 19.11.	The existing articles (Article 57) provide that dividends unclaimed for a period of 12 years from the date of declaration thereof may be declared forfeited by directors.	In the new MOI the period is reduced to three years.
19.	Notice period for AGM and for other general meetings. Clause 20.2.1.	Article 17 provides that general meetings shall be held in accordance with the provisions of the 1973 Companies Act that required 21 clear days' written notice for AGM's and 14 clear days' written notice for any other general meeting, except if a special resolution will be considered at such meeting in which case 21 clear days' written notice is required.	In terms of the Companies Act, the new MOI provides that a shareholder meeting for the company shall be called by at least 15 business days' written notice. The period is the same for the AGM and any other general meeting.
20.	Quorum requirements at a general meeting. Clause 20.3.2.	Article 19 of the existing articles provides that the quorum for a general meeting shall be the minimum required by the 1973 Companies Act, which was three members personally present and entitled to vote.	Clause 20.3.2 sets out the quorum requirements in line with section 64(1) of the Companies Act, which is in essence sufficient persons to exercise an aggregate of 25% of all the voting rights and where the company has more than two shareholders, three shareholders entitled to vote, should be personally present.
21.	Chairperson's casting vote at general meeting. Clause 20.6.13.	No such provision included under the existing articles.	Clause 20.6.13 provides that, in case of an equality of votes, the chairperson shall not have a casting vote.
22.	Electronic participation in shareholders' meetings. Clause 20.1.6.	No such provision included under the existing articles.	Clause 20.1.6 provides for electronic participation in shareholders' meetings under certain circumstances.

No	Theme or clause	Existing regime	Proposed regime
23.	Number of directors. Clause 21.1.1.	Article 34.1 of the existing articles provides that the number of directors shall be not less than four nor more than 20.	In line with the Companies Act, clause 21.1.1 effectively provides that the minimum number of directors shall be six.
24.	Appointment of alternate directors. Clause 21.2.2.	The existing articles (Article 40.1) provide that each director shall have the power to nominate a person to act as alternate in his/her place.	Clause 21.2.2 deals with alternate directors and contains in essence similar provisions to the existing Articles. The MOI provides that no director shall be entitled to appoint an alternate director himself/herself. They are to be elected by the shareholders.
25.	Terms of directorships. Clause 21.2.8.	No such provision included under the existing memorandum and articles.	In accordance with paragraph 10.16(k) of the JSE Listings Requirements, life directorships and directorships for indefinite periods are not permissible.
26.	Directors' remuneration. Clauses 21.4.1 and 21.4.2.	Article 38 of the existing articles provides that the directors shall be entitled to such remuneration as may be determined from time to time by the shareholders in general meeting.	Clause 21.4.1 stipulates that non-executive directors shall be entitled to such remuneration for acting as directors as may be approved from time to time by special resolution of the shareholders passed at a general meeting within the previous two years. Clause 21.4.2 provides that the remuneration of executive directors shall from time to time be determined by a quorum of disinterested directors.
27.	Director reimbursement of costs. Clause 21.4.3.	Article 39 states that the directors shall be entitled to all traveling, subsistence and other expenses properly incurred by them in the execution of their duties in or about the business of the company and which are authorised or ratified by the directors.	Clause 21.4.3 provides for travelling and other expenses properly and necessarily incurred regarding the business of the company, and in attending meetings of the board or board committees, and remuneration for extra services. It follows the wording of the JSE Listings Requirements (paragraph 10.16(f) of Schedule 10).
28.	Director rotation. Clause 21.6.1.	The existing Articles (Article 54) provides that one-third of all directors shall retire at each annual general meeting and if the number Is not a multiple of three then the nearest number to, but not less than, one-third shall retire. The managing director is excluded from retiring by rotation.	Clause 21.6.1 provides the same, save that it shall only apply to non-executive directors. (Paragraph 10.16 (g) of Schedule 10 to the JSE Listings Requirements.) (Article 21.2.6 provides that a casual vacancy occurring on the board may be filled by the board, but that the individual so appointed shall cease to hold office at the termination of the first shareholders' meeting to be held after the appointment of such individual as a director unless he/she is elected at such meeting.)
29.	Disclosure of personal financial interest by directors. Clause 22.5.	Article 47 stipulates that every director shall comply with the disclosure requirements of the 1973 Companies Act.	Clause 22.5 deals with disclosure of personal financial interests by directors and ensures alignment to the provisions of the Companies Act.

No	Theme or clause	Existing regime	Proposed regime
30.	Directors' quorum requirement. Clause 22.1.7.	The existing articles (Article 50) provide that the quorum shall be a majority of the directors for the time being.	Clause 22.1.7 provides that the quorum shall be 50% of the directors.
31.	Directors' round robin resolution. Clause 22.4.	Article 52 provides for a round robin resolution to be signed by all directors who may be present at the time in South Africa, provided that they are a quorum.	Clause 22.4 effectively provides that, for a round robin resolution to be effective, each director must have received notice of the matter to be decided and the majority of directors must have signed the resolution.
32.	Social and ethics committee. Clause 24.	The existing articles do not specifically provide for a social and ethics committee.	Clause 24 provides that the board shall appoint a social and ethics committee.
33.	Remuneration committee. Clause 25.	The existing articles do not specifically provide for a remuneration committee.	Clause 25 provides that the board shall appoint a remuneration committee.
34.	Financial assistance contemplated in section 45 of the Companies Act. Clause 26.	No such provision is included in the existing articles.	Clause 26 provides for financial assistance to directors by providing authority to the board of the company to provide financial assistance to its director or prescribed officer or to a related or inter-related company or corporation, or to such a person related to any such person or entity. However, such financial assistance is subject to a solvency and liquidity test and special resolution approval as envisaged in the Companies Act.
35.	Indemnity. Clause 27.	The existing articles (Article 61) set out the relevant provisions.	Clause 27 reflects the position under the Companies Act, which provides that the company may indemnify a director, alternate director, prescribed officer or a member of a board committee in respect of any liability except as limited in the Companies Act.
36.	Delivery of notices. Clause 33.	Article 62 deals with method and times of the delivery of documents.	Clause 33 effectively provides that the company will be able to deliver a document/notice: (i) personally; (ii) by posting it; (iii) sending it by electronic communication; (iv) where appropriate, by an advertisement in a national daily paper; and (v) where appropriate, making it available on a website and notifying the shareholders of its availability.

11. Ordinary Resolution Number 5: signature of documents

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

Voting and proxies

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

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

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

Shareholders who have dematerialised their ordinary shares through a Central Securities Depository 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 (Pty) Ltd, 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, 27 March 2013.

By order of the board

R Wolmarans
Group secretary

31 January 2013

Transfer secretaries
Computershare Investor Services (Pty) Ltd
Ground Floor
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: ZAE000003273

Registered and business address
1st Floor, Building 9
Greenstone Hill Office Park
Emerald Boulevard
Greenstone Hill, Edenvale, 1609
(Private Bag 13, Elandsfontein, 1406)

Tel: +27 11 657 5000
E-mail: info@hudaco.co.za
Website: www.hudaco.co.za

Secretary
Reana Wolmarans
Contact details as above

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

Auditors
Grant Thornton
137 Daisy Street
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	28 March 2013
Reports and financial statements	
Preliminary report and final dividend announcement	31 January 2013
Annual financial statements (mailed to shareholders)	26 February 2013
Publish on website	26 February 2013
Interim report and interim dividend announcement	last week in June
Dividend payment details	
Payment of final dividend	11 March 2013
Payment of interim dividend	third week in August

Group **directory**

Division	Business name	Principal activities	Address	Contact	
Engineering consumables					
Bearings	Bearings International	Distributor of bearings, chain, seals, geared motors, 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	Corner 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, fittings and Keymak PVC hose	46 Paul Smit Street Anderbolt Boksburg	Tel Fax E-mail	011 892 1714 011 892 2781 info@astore.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	Corner 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	Supplier of filtration solutions, kits and accessories	160 Francis Road Anderbolt Boksburg North	Tel Fax E-mail	0861 347 789 011 894 5832 sales@fhs.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, Mercury 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 and related CCTV equipment	65 Julbert Road Benrose	Tel Fax E-mail	011 401 6700 011 401 6753 sales@elvey.co.za
	Pentagon	Distributor of CCTV equipment, including system design, 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 professional mobile radio communication equipment and radio systems integrator	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 automotive clutch kits and ignition leads, rotary oil and hydraulic seals	10 Wankel Street Jet Park	Tel Fax E-mail	011 397 4070 011 397 4326 info@abes.co.za
	Deltec Power Distributors	Distributor of maintenance free batteries	6 Liebenberg Street Alrode Alberton	Tel Fax E-mail	011 864 7930 011 908 4859 sales@deltecpower.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 Danie Louw Horoun Adams	Chief executive Director Director Logistics director	Chris de Kock Ian Robertson Robin Briggs Knocks Ngema	Financial director Director Sales director Director	
Ossie Carstens Rowan Michelson	Chief executive Marketing director	Maurice Pringle Mandisa Zulu	Sales director Financial director	
Brian Constancon	Chief executive: Electrical power transmission and steel			
Lynette Anderson David da Silva	Chief executive Financial manager			
David Allman Cindy Dixon	Chief executive Managing director	Andrew Smith Leredi Mokoala	Financial director Director	
Ossie Carstens Piet Swanepoel	Non-executive chairman Managing director	Mark Knight Tom Harrison	Financial director HR director	
Mark Tarboton Anton Dedekind	Chief executive General manager	Gary Howell	Financial manager	
Burtie Roberts Keith Mullen	Managing director Sales director	Widor Grobbelaar	Financial manager	
Barry Fieldgate Martin Petersen	Chief executive Financial director	Frank Venter Philip Venter	Sales director Operations director	
Mike Allnutt Gawie Beukman	Chief executive Financial director	Andrew Mowat Donovan Marks	Operations director Managing director Proof Engineering	
Rolf Lung Erika van de Velde	Chief executive Financial manager	Andries Mashilo	Sales manager	
Bob Cameron-Smith Arusha Asari	Chief executive Financial director	Bhoopendra Dulabh Mick Spooner	Divisional director Divisional director	
Jack Edery Gary Lowe	Chief executive Commercial director	Dave Waywell Zane Greeff	Key accounts director Technical director	
Jack Edery Brendon Hall	Non-executive chairman 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	
Ossie Carstens Colin Eddey Dave Roby	Non-executive chairman Managing director Export director	John Stroebel Mark Knight Peter Selby	Sales director Financial director Technical 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 Rika Wessels Gary Walters Jonny Masinga	Group accountant Group treasurer Acquisitions manager Transformation and human resources executive	

Form of **proxy**

Hudaco

To: **Computershare Investor Services (Pty) Ltd**
Ground Floor, 70 Marshall Street, Johannesburg, 2001
(PO Box 61051, Marshalltown, 2107)
Fax +27 11 370 5390

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

Form of proxy for the twenty-eighth annual general meeting – for use by certificated Hudaco ordinary shareholders and dematerialised shareholders with own name registration only (see note 1).

To be received by no later than 11:00 on Wednesday, 27 March 2013.

For use by Hudaco shareholders at the annual general meeting of Hudaco to be held on Thursday, 28 March 2013 at Hudaco's corporate offices situated at Building 9, Greenstone Hill Office Park, Emerald Boulevard, Greenstone Hill, Edenvale, Gauteng at 11:00 ("the annual general meeting").

I/We

of (address)

(please print)

being the holder(s) of ordinary shares in the capital of the company, do hereby appoint (see note 2):

1. or failing him/her,

2. or failing him/her,

3. the Chairman of the annual general meeting,

as my/our proxy to act on my/our behalf at the annual general meeting, which will be held for the purpose of considering and, if deemed fit, passing, with or without modification, the resolutions to be proposed thereat and at any adjournment thereof, and to vote for and/or against the resolutions and/or abstain from voting in respect of all the above ordinary shares registered in my/our name/s, in accordance with the following instructions:

Please indicate with an "X" in the appropriate box below how you wish to vote.

	Number of ordinary shares		
	For	**Against**	**Abstain**
Ordinary Resolution Number 1: To re-elect directors retiring by rotation:			
1.1 GR Dunford			
1.2 DD Mokgatle			
1.3 SG Morris			
Ordinary Resolution Number 2: Appointment of the members of the audit and risk management committee:			
2.1 SG Morris			
2.2 DD Mokgatle			
2.3 D Naidoo			
Ordinary Resolution Number 3: To approve the re-appointment of external auditors			
Ordinary Resolution Number 4: Ratification of appointment of social and ethics committee			
Special Resolution Number 1: Approval of non-executive directors' remuneration			
Non-binding Resolution Number 1: Endorsement of Hudaco's remuneration policy			
Special Resolution Number 2: Authorising the provision of financial assistance in terms of sections 44 and 45 of the Companies Act			
Special Resolution Number 3: General authority to repurchase shares			
Special Resolution Number 4: Adoption of new memorandum of incorporation			
Ordinary Resolution Number 5: Signature of documents			

Signed at on 2013

Signature(s)

Assisted by me (where applicable)

PLEASE READ THE NOTES ON THE REVERSE HEREOF.

Notes to the form of proxy

1. Shareholders who have dematerialised their shares through a Central Securities Depository Participant ("CSDP") or broker must either inform their CSDP or broker of their intention to attend the annual general meeting to provide them with the necessary authority to attend or provide the CSDP or broker with their voting instructions in terms of the custody agreement entered into between the beneficial owners and the CSDP or broker.
2. A shareholder may insert the name of a proxy or the names of two alternative proxies of the shareholder's choice in the space provided. The person whose name appears first on this 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 shareholder's instructions to the proxy must be indicated by "X" in the appropriate box provided on this form of proxy. 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 member's votes exercisable at the annual general meeting.
4. The completion and lodging of this form of proxy will not preclude the shareholder from attending the annual general meeting and speaking and voting thereat to the exclusion of any proxy appointed in terms hereof should the shareholder wish to do so. (See note 1 above.)
5. The Chairman of the annual general meeting may reject or accept any form of proxy that is completed and/or received, other than in accordance with these notes. Forms of proxy received by way of facsimile will be acceptable.
6. Each shareholder is entitled to appoint one or more proxies (none of whom needs to be a shareholder of Hudaco) to attend, speak and vote in place of the shareholder at the annual general meeting.
7. Any alteration to this form of proxy, other than a deletion of alternatives, must be initialled by the signatories.
8. Documentary evidence establishing the authority of the person signing this form of proxy in a representative capacity must be attached to this form of proxy unless previously recorded by Hudaco.
9. Where there are joint shareholders:
   (a) Any one shareholder may sign this form of proxy;
   (b) The vote of the senior (for that purpose seniority will be determined by the order in which the names of shareholders appear in Hudaco's register of shareholders) who tenders a vote (whether in person or by proxy) will be accepted to the exclusion of the vote/s of the other joint shareholder/s.
10. Forms of proxy should be lodged with or posted to the transfer secretaries, Computershare Investor Services (Pty) Ltd, Ground Floor, 70 Marshall Street, Johannesburg, 2001 (PO Box 61051, Marshalltown, 2107), so as to reach them by no later than Wednesday, 27 March 2013 at 11:00.

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