Hudaco

Integrated Report

for the year ended 30 November 2013

Contents and relevance of report sections to our stakeholders

About this report

This integrated report is prepared in terms of the JSE's Listings Requirements for integrated reporting and the King III Code on Corporate Governance. It also meets all the other legal requirements to which the company must adhere (such as the Companies Act). This integrated report is used as a vehicle to communicate our evolving business model and the quality of the decisions that have led to our financial results.

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

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

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

While we acknowledge that there are still areas to improve in Hudaco's reporting and we remain committed to addressing these in subsequent reports, we believe that, building on our previous reports, this 2013 report moves us closer towards best international practice, provides stakeholders with a more detailed view of our activities for the past year and outlines our approach to these issues in the years ahead. Hudaco's reporting complies with application level C of the Global Reporting Initiative (GRI) sustainability guidelines on economic, environmental and social performance, adopted by the group in 2010.

Pg *Refers to additional information in the report*

www *Refers to additional information on our website*

King III

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

Approval of financial statements

The financial statements have been approved by the board. Grant Thornton has signed an unqualified audit opinion on the annual financial statements. This integrated report is available in hard copy from the group secretary at +27 11 657 5000. Any questions regarding this report or its contents should also be channelled through the group secretary.

Turnover up
13%

Comparable earnings per share up
4%

Exports to the rest of Africa up
40%

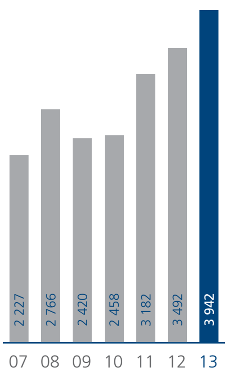
Highlights and challenges

- **51** employees graduate from Wits Business School
- **51** successful technical trainees
- **45** bursaries granted to staff and their family members
- **Performance restored** at Bosworth
- **40% increase** in exports to rest of Africa
- **Acquisition** of Dosco group and Joseph Grieveson
- **Successors** for two retired senior executives sourced in-house
- **New ERP system** at Bearings International
- BEE **financing arrangements** restructured – now internal
- Mining **strikes impact** on last quarter trading again
- **Difficult trading** year for Bearings International
- **SARS challenging** financing arrangements of BEE structure

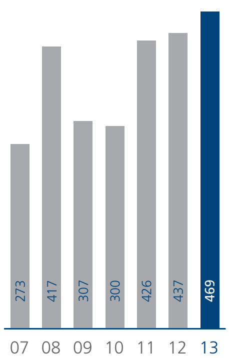
Results in brief

30 November	2013	2012	% change
Turnover (Rm)	**3 942**	3 492	13
Operating profit (Rm)	**469**	437	7
Comparable earnings (Rm)	**311**	300	4
Headline earnings (Rm)	**294**	339	(13)
Attributable earnings (Rm)	**294**	340	(13)
Comparable earnings per share (cents)	**983**	947	4
Headline earnings per share (cents)	**928**	1 071	(13)
Dividends per share (cents)	**465**	465	

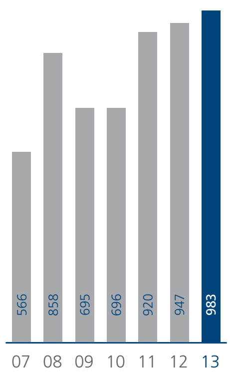
Turnover (Rm)



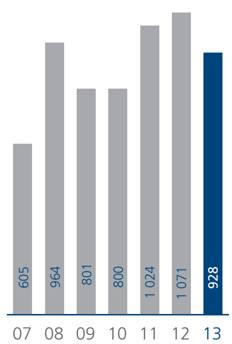
Operating profit (Rm)



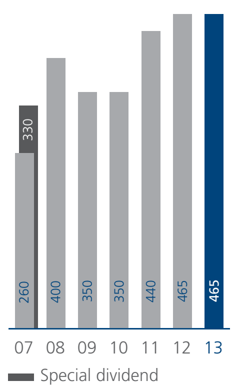
Comparable earnings per share (cents)



Headline earnings per share (cents)



Dividends per share (cents)



Profile

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

Elvey Security Technologies – leading distributor of intruder detection solutions

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

Powermite – manufacturer and distributor of electrical plugs and sockets for industry

Hudaco sources branded products, mainly on an exclusive basis, directly from leading international manufacturers and to a lesser extent from local manufacturers. Hudaco seeks out niche areas in markets where customers need, and are prepared to pay for, the value Hudaco adds to the products it distributes. The value-added includes product specification, technical advice, application and installation training and troubleshooting, combined with ready availability at a fair price. The group has a network of specialised branches and independent distributors throughout southern Africa to ensure product availability to its customers. With the exception of DD Power, in which Deutz AG has a 30% share, all Hudaco businesses are 15% owned directly by BEE shareholders.

History

1890s

Formation

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

1930s

First JSE listing

In September 1938, Hubert Davies and Company Limited listed on the Johannesburg Stock Exchange. It delisted almost four decades later, in 1977, when it became a wholly-owned subsidiary of Blue Circle Limited. The United Kingdom-based industrial group had already acquired a substantial interest in the company three years earlier.

1970s

Expansion and decentralisation

In the 1970s, Hubert Davies expanded its product offering and branch network to extend across southern Africa. Then a strategic decision was made to specialise by product and activity, in order to provide more focused customer service and achieve improved market penetration. Following on from this, a management philosophy of decentralising decision-making and responsibility was introduced. This philosophy is still in place today.

1980s

Second JSE listing

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

2000s

B-BBEE shareholding and growth

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

Today

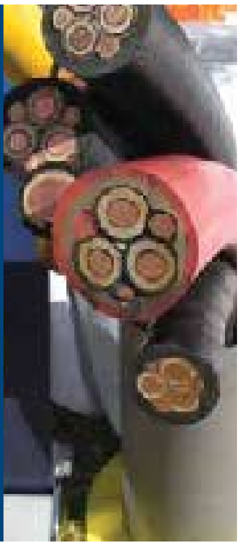
A quality industrial distributor

Today, with a proud history of over 120 years since J Hubert Davies saw the long-term business potential of the initial gold rush, the group remains true to its roots. The group now employs over 2 500 people and has a market capitalisation of about R3,5 billion. Its shareholders include many blue-chip players in the South African retirement investment industry.

Early instrument for measuring electrical current, supplied by Hubert Davies and Co

Group at a glance

ENGINEERING CONSUMABLES



Powermite – specialised cabling for sophisticated electrical solutions

Principal activities	Businesses
Bearings	**Bearings International**
The distribution of bearings, chain, seals, geared motors, electric motors, transmission products and alternators.	Has over 40 branches across South Africa. The main bearing brand distributed is FAG, which is of German origin.
Diesel engines and spares	**Deutz Dieselpower**
The distribution of Deutz diesel engines and Deutz spares and the provision of service support.	Represents Deutz AG – one of the world's leading independent manufacturers of diesel engines.
Power transmission	**Power transmission**
The distribution of geared motors, belting, hydraulics, filtration solutions, kits and accessories, pneumatics, industrial hose, conveyor drive pulleys, variable speed drives, special solid and hollow round steel, specialised thermoplastic pipes and fittings, gear pumps, ferrous and non-ferrous castings, electrical cabling, plugs and related products to the manufacturing, mining and agricultural aftermarkets.	Ambro Sales, Astore Africa, Belting Supply Services, Bosworth, Dosco, Ernest Lowe, Filter and Hose Solutions, Joseph Grieveson, Midrand Special Steels, Powermite and Varispeed.

CONSUMER-RELATED PRODUCTS

Rutherford – power tools for industry

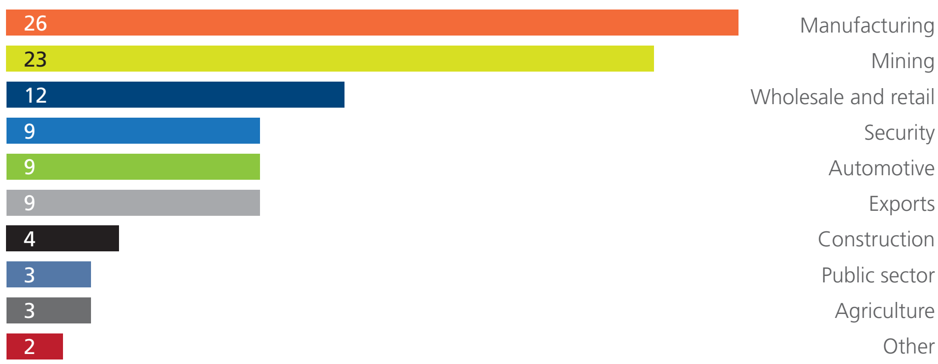
Principal activities	Businesses
Automotive products	**Abes Technoseal**
The distribution of clutch kits, automotive ignition leads and oil and hydraulic seals to the automotive and industrial aftermarket.	Distributes seals and Valeo clutch kits.
Security equipment	**Elvey Security Technologies and Pentagon**
The distribution of intruder detection, access control and related CCTV equipment, including design and integration of systems, fibre-optics, fire detection and video over IP installations.	Distribute DSC and Optex security equipment.
Communication equipment	**Global Communications**
The distribution of professional mobile radio equipment and radio systems integrator.	Distributes Kenwood and JVC communication equipment.
Power tools	**Rutherford**
The distribution of power tools, marine engines and survey equipment.	Distributes Makita power tools and Mercury marine engines.
Batteries	**Deltec and Specialised Battery Systems**
Distribution of lead acid, stand by and solar batteries.	Distribute maintenance free batteries, stand by and solar batteries respectively.

GROUP

Filter and Hose Solutions – filtration solutions, kits and accessories

Group

Sales by market sector – 2013 (%)



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

R million	2013	2012
Sales	2 478	2 280
– Ongoing	2 273	2 216
– Acquired 2012 and 2013	205	64
Operating profit	292	280
– Ongoing	272	268
– Acquired 2012 and 2013	20	12
Average NOA*	1 394	1 169
Number of permanent employees	1 983	1 878

** Net operating assets.*

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For more information on engineering consumables, see page 38

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

R million	2013	2012
Sales	1 470	1 223
– Ongoing	1 291	1 155
– Acquired 2012 and 2013	179	68
Operating profit	199	169
– Ongoing	179	162
– Acquired 2012 and 2013	20	7
Average NOA*	601	487
Number of permanent employees	685	685

** Net operating assets.*

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For more information on consumer-related products, see page 45

Key drivers
Exchange rates
Acquisitions

R million	2013	2012
Sales	3 942	3 492
– Ongoing	3 558	3 360
– Acquired 2012 and 2013	384	132
Operating profit	469	437
– Ongoing	429	418
– Acquired 2012 and 2013	40	19
Average NOA*	2 119	1 773
Number of permanent employees	2 688	2 588

** Net operating assets.*

Seven-year review

R million	2013	2012	2011	2010	2009	2008	2007
Group statement of income							
Turnover	**3 942**	3 492	3 182	2 458	2 420	2 766	2 227
Profit before interest and tax	**446**	445	426	300	307	417	273
Net finance costs less dividends received	**21**	48	42	17	28	40	(5)
Profit before taxation	**425**	397	384	283	279	377	278
Taxation	**120**	47	46	26	24	57	83
Profit after taxation	**305**	350	338	257	255	320	195
Non-controlling interest	**11**	11	13	5	6	23	13
Headline earnings	**294**	339	325	252	249	297	182
Capital items		1	(1)	(18)	(6)	10	1
Attributable earnings	**294**	340	324	234	243	307	183
Shares in issue (000) (weighted average)	**31 646**	31 646	31 617	31 466	31 023	30 836	30 178
Earnings per share (cents)							
– comparable	**983**	947	920	695	695	858	566
– headline	**928**	1 071	1 024	800	801	964	605
– basic	**930**	1 074	1 026	745	784	995	606
Dividends per share (cents)	**465**	465	440	350	350	400	260
Special dividend per share (cents)							330
Group statement of financial position							
Property, plant and equipment	**214**	205	182	131	91	92	74
Goodwill	**619**	594	516	331	117	131	77
Intangible assets	**39**	49	49	34	18	25	
Deferred taxation – net	**10**	11	11	23	11	(5)	1
Inventories	**1 104**	919	813	663	597	780	544
Trade and other receivables	**780**	684	616	423	356	507	399
Trade and other payables	**(673)**	(592)	(586)	(420)	(326)	(488)	(435)
Taxation – net	**37**	(6)	(8)	(6)	(10)	(33)	(30)
Net operating assets	**2 130**	1 864	1 593	1 179	854	1 009	630
Investment in preference shares		2 181	2 181	2 181	2 181	2 181	2 181
Net (borrowings) cash	**(204)**	(17)	166	262	335	69	317
Employment of capital	**1 926**	4 028	3 940	3 622	3 370	3 259	3 128
Interest of shareholders of the group	**1 816**	1 670	1 494	1 287	1 150	1 015	807
Non-controlling interest	**19**	26	31	27	34	40	29
Equity	**1 835**	1 696	1 525	1 314	1 184	1 055	836
Shareholders for special dividend							101
Subordinated debenture		2 181	2 181	2 181	2 181	2 181	2 181
Amounts due to vendors on acquisitions	**91**	151	234	127	5	23	10
Total capital employed	**1 926**	4 028	3 940	3 622	3 370	3 259	3 128
Group statement of cash flows							
Cash generated from trading	**513**	458	458	327	333	450	334
(Increase) decrease in working capital	**(138)**	(121)	(129)	12	166	(235)	(71)
Cash generated from operations	**375**	337	329	339	499	215	263
Taxation paid	**(169)**	(54)	(46)	(49)	(63)	(56)	(81)
Net cash from operating activities	**206**	283	283	290	436	159	182
Investment in new operations	**(181)**	(229)	(164)	(184)	(7)	(140)	(35)
Investment in property, plant and equipment	**(32)**	(39)	(64)	(50)	(17)	(20)	(17)
Disposal of (investment in) preference shares	**2 181**						(2 181)
Discontinuation of business					7		
Dividends and interest received	**50**	202	205	218	203	212	83
Net cash from investing activities	**2 018**	(66)	(23)	(16)	186	52	(2 150)
Proceeds from issue of shares			2	7	8	4	14
(Decrease) increase in finance leases		(3)	3				
Subordinated debenture (repurchased) issued	**(2 181)**						2 181
Finance costs paid	**(66)**	(237)	(234)	(234)	(235)	(249)	(81)
Dividends paid	**(164)**	(163)	(124)	(120)	(129)	(214)	(67)
Net cash from financing activities	**(2 411)**	(403)	(353)	(347)	(356)	(459)	2 047
Net (decrease) increase in cash and cash equivalents	**(187)**	(186)	(93)	(73)	266	(248)	79

Mission

Achieving Hudaco's mission

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

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

We aim to produce superior returns for our **shareholders** by efficiently managing our business and by taking advantage of acquisitive and organic growth

We safeguard our strong market share by offering quality products and ready availability to our **customers**

We ensure that a significant part of Hudaco's strength – its **people** – thrive in a decentralised, dynamic and challenging business environment

We aim to achieve our objectives in a manner governed by the highest standards of ethical conduct, sensitive to the needs of the **communities** in which our businesses operate and conscious of our responsibilities for safety and the **environment**

We are committed to playing a part in the **transformation** of South Africa's society and economy to help redress the inequities of the past

We establish enduring partnerships with our **suppliers**, combining their leading world brands and our distribution strengths in southern Africa

Measurement of success

We measure success through financial and non-financial assessments:

- **Customers** – growth in market share, measured where information is available and using customer satisfaction reviews;
- **Suppliers** – retention of significant brands, principal relationship reviews, benchmarking the market position of a brand in South Africa with its market position internationally;
- **Our people** – retention record; success on educational programmes; health and safety records; support for wellness initiatives;

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- **Transformation** – employment equity: appointment and promotion of black people to more senior positions; proportion and success of black people on our educational programmes; Black Economic Empowerment: empowering previously disadvantaged South Africans to own equity in the company;
- **Communities** – success of students on our BEE bursary programme, support for and success of our corporate social investment initiatives; and
- **Shareholders** – the primary measures are financial and are detailed in the financial review on pages 22 to 25.

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Business model

SOURCE

- Hudaco sources products from more than 600 international suppliers scattered across the industrialised world.

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- We carry more than 200 000 line items in stock. Demand is relatively inelastic, with low line item sales predictability, whilst supplier lead times can range from three months to well over a year, in extreme cases. Stockholding is therefore Hudaco's most important asset as our key competitive advantage is the ability to offer availability on demand.

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

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

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

GROUP VALUE-ADD

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

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

ACQUISITIONS

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

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

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

Where practicable, Hudaco seeks to:

- purchase the business not the company;
- enter into service agreements with management;
- include earn-out arrangements; and
- purchase for cash, unless the acquisition is large enough to warrant issuing shares.

Our success factors

- The quality of the personal relationships between Hudaco and the seller of the business is the most important factor for a successful acquisition. We don't impose joint purchasing or tendering, preferring to preserve each business' route to market.
  Managing directors of businesses that come into the group may be invited to play a wider role within the group once they have completed their three-year earn-out and they have proved to us and to themselves that they are comfortable in a corporate environment. We benefit greatly from the presence of the seller of a successful business on our team as they often bring with them experience and ideas worth sharing across the broader group.
- Our decentralised structure helps to ensure that the businesses that we buy remain intact (ie the brand, the staff and the reputation). Hudaco only intervenes when performance requires it.

Principals/suppliers

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Hudaco's businesses distribute top-quality branded products and have represented their major principals for many years. The dates the relationships commenced are set out with the brand logos on pages 39 to 47. The following factors strengthen our ability to retain existing distribution rights:

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

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

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

- We seek out and secure exclusive distribution rights from leading international manufacturers with a global brand presence and a commitment to maintaining market leadership, particularly through technical innovation.
- We look for products with which we can add value through the distribution chain through stockholding, product availability and providing technical support. Typically these would be technical specification, advice on usage or installation and customer training. The amount of value-add is established by determining whether the customer's purchasing decision could be influenced by the addition of a technical support function.
- We focus on offering engineering consumable products. These would typically be maintenance spares for critical customer equipment. Purchasing decisions for these items are made easily and quickly without onerous tender procedures.

We believe that there are many private business owners in South Africa who are aware of Hudaco, like our management style and consider our buyout formula attractive. When the time is right, we hope they will approach us directly with a view to possibly selling their businesses to us.

Key elements of our success:
Only selling products which require **value to be added** and our **decentralised management** style.

Value-add can be some or all of the following:

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

Decentralising management has the following advantages:

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

Target criteria

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

- Customers which require value-added distribution.
- An identifiable competitive advantage, eg strong brand/s.
- Already profitable and earning good returns.
- In growth markets.
- Distribution rights for products which are not currently offered by any business within the group.
- Strong general and financial management and good controls.
- A presence in non-capital, engineered products.
- Selling to markets in southern Africa.
- Preferably headquartered in Gauteng.

DISTRIBUTION

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Principal activities/Product range

- Products are distributed throughout southern Africa by our 24 businesses.
- We supply some 20 000 active customers from over 140 southern African branches (most of which are in South Africa).
- In most countries we supply through local distributors, but we have branches in Namibia, where we have a longer track record of doing business, and more recently in northern Mozambique, where our customers have indicated a requirement and good distributors are hard to find, Zambia and Zimbabwe.

Engineering consumables

- Bearings
- Diesel engines and spares
- Power transmission products

Consumer-related products

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

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Report of the **Chairman and Chief executive**

Hudaco has weathered the financial crisis in the world very well over the last few years. We have grown our portfolio of businesses and products substantially, reducing our previous strong dependence on mining to a more balanced portfolio. We are well positioned to take advantage of any improvement in economic conditions.

2013 results

Sales of R3,9 billion are 13% up on last year whilst operating profit climbed 7% to R469 million. The operating profit margin declined from 12,5% to 11,9% mainly due to difficulties in pricing to replacement with the volatile currency, coupled with lower sales than planned for, particularly in the closing months of the year.

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We believe that "comparable earnings" represent the ongoing results of the group more appropriately than other measurements. Comparable earnings have been calculated as if the restructuring of the financing of the BEE transaction (which happened on 28 February 2013) had taken place before the start of the 2012 financial year and also excludes the charge to income arising from adjustments to estimated earn-out payments on acquisitions. Prior to the introduction of IFRS 3 this would have been included in goodwill. Comparable earnings per share increased 4% to 983 cents.

The total 2013 dividend has been maintained at 465 cents, covered 2,1 times. Our long-term policy is to pay a dividend of about 40% of comparable earnings but we plan to pay a higher percentage until the earnings increase enough to compensate for the increase in effective tax rate.

The financial position is sound. The group has R204 million in net borrowings at year end (last year: R17 million) with a further R180 million to be borrowed early in the new year relating to the acquisition of the Dosco group and Joseph Grieveson, as all of the suspensive conditions have been fulfilled. Inventories have been reasonably well managed given the declining Rand. They are up 20% to R1 104 million but this includes acquisitions. The return on net tangible operating assets (RONTA) in 2013 is 37%, down on the 39% of last year but still well above our pre-tax cost of capital which is approximately 15%.

Business model

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Hudaco is engaged in the business of importing and distributing branded industrial and electronic consumable products in the South African region. Core demand for our product range is relatively stable, being influenced more by GDP activity than GDFI. Although some businesses in the group benefit directly from GDFI spend, most do not, so the impact on total sales is not significant. About half of our business is derived from the manufacturing and mining sectors, with the balance mainly from construction, the automotive aftermarket and security industries.

Distribution rights have been secured from leading international manufacturers, mainly on an exclusive basis. We look for manufacturers with a global brand presence and a commitment

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to maintaining market leadership, particularly through technical innovation. We seek products which require a "value add" beyond just product availability, such as technical advice or training on installation and usage – these are particularly valued by customers in Africa who tend to have a smaller pool of technical skills from which to draw than their counterparts in other parts of the world. Experience has taught us that customers who only buy based on the lowest price are best left to other distributors with a different business model. Although all markets are highly competitive with numerous players, none of our imported product offering has locally manufactured competition, nor are any likely to have in the foreseeable future.

Hudaco's businesses do not require significant investment in property or plant and equipment to operate and the group balance sheet consists mainly of working capital, with inventories being the largest component. However, where security of tenure is important we will acquire key property locations.

Important financial characteristics of the group are high internal rates of return and strong cash flows, which are used to fund additional working capital as our businesses grow, pay a market related dividend, and invest in new businesses when opportunities are found.

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As we are predominately an importer, prices charged are linked to the Rand exchange rate whilst the group's overhead cost base grows at the local rate of inflation. Over time the Rand would be expected to weaken by the inflation differential between South Africa and its trading partners, allowing us to pass on imported inflation to our customers at roughly the same rate as the local inflation rate. However, it is not always the case that Rand weakness in a financial year exactly equals the inflation differential. Volatility in the currency has made it difficult to sustain price increases this year.

Management of our foreign currency exposure is based on the principle of avoiding speculation and securing certainty of the quantification of liabilities. Therefore all foreign currency liabilities are hedged at the time ownership of the asset passes to Hudaco. Between 20% and 30% of orders on suppliers are also hedged to guard against spikes in exchange rates.

Strategic focus

In 2012 the board put in place a list of non-financial objectives for the CEO. These include the group's strategic objectives. In 2013 his annual incentive bonus is linked to progress against the non-financial objectives with a 25% weighting. The objectives are:

- Earnings growth of 20%+ per annum
- Return on equity of 20%+
- Making successful acquisitions
- Expanding into Africa
- Increasing the number of black people in senior management
- Succession planning
- Effective shareholder communication
- Acquiring agencies for products in faster growing markets

Progress against these objectives is reported on in the appropriate places in this integrated report but we deal below with the strategic objectives.

A number of factors have led the board to conclude that investment in mining and manufacturing in South Africa is likely to be quite low for the foreseeable future. This is expected to be the case even if commodity prices pick up in response to a world economic recovery. Reasons include: a lack of electricity and rail infrastructure to support mining investment in particular; a lack of clarity on the future ownership of and conditions attached to mining rights; a lack of clarity on the scale and cost of future indigenisation requirements; and lengthy annual work disruptions of mines and manufacturers by wage strikes, which has now become the norm.

Until these issues are resolved or settle down, it is clear that we cannot rely on organic growth from our current portfolio of businesses to give the 20%+ annual earnings growth the group strives for. Achieving consistent earnings growth of this magnitude will therefore depend on the success of our acquisition programme in non-mining related products and our thrust into Africa.

Acquisitions

Pg 8

During 2013 three acquisitions were completed for a total likely consideration of R234 million. The acquisitions are:

- Three-D Agencies, a distributor of cable accessories sourced from leading overseas and local suppliers. Its product range complements Powermite's electrical cables and industrial plugs and sockets;
- Specialised Battery Systems, an importer of batteries used mainly in the standby and solar market. This business will complement the existing battery business, Deltec, that focuses on automotive batteries; and
- Dosco and Joseph Grieveson, from Dunford Holdings, which have as their main areas of business machining, repair and sale of hydraulic pumps for the local and export market and the production of ferrous and non-ferrous castings for a diversity of industries in South Africa. These will only be accounted for from December 2013.

These acquisitions are expected to contribute 70 cents to headline earnings per share in 2014, the first year in which the businesses will be included for a full 12 months.

A key incentive to prospective sellers is the earn-out formula we offer. This typically works over the three years post-acquisition, and gives the sellers a purchase price based on the average annual profit over the earn-out period times the agreed multiple. The businesses benefit from Hudaco's review process and focus on strategy, strengthening of financial controls and general administrative support as well as from Hudaco's BEE credentials. Therefore there is a real prospect of good growth through sustainable gains in market share during the earn-out period to both parties' benefit.

During the year both FHS and Global Communications completed their final years of earn-out, with both businesses exceeding the maximum profit stipulated in the purchase agreement and reaching the maximum purchase price. The earn-out period for Keymak was curtailed because the only executive still on an earn-out left the group. As a result, the total of the purchase prices for these businesses was R24 million higher than initially estimated and this was charged against headline earnings in terms of IFRS.

Hudaco has, on a small scale, built a manufacturing skills base which has, over the years, delivered a successful track record. One key advantage of these businesses is that the brands are owned by the group and products can be sold in whatever market we choose without the need to re-negotiate distribution agreements with suppliers. Hudaco has developed the skills and confidence to invest more in businesses manufacturing products and this is part of the motivation for buying Dosco and Joseph Grieveson. Of course we are keenly aware that South Africa does not have a well-developed manufacturing industry capable of competing on a world stage but there are some areas where local manufacture can have a competitive advantage. These would typically be where volumes are too low to interest foreign manufacturers – for example where local regulations require a unique product (often the case in South Africa's mining industry) or where transport costs are a significant part of the total cost making importation uncompetitive. Bosworth and GPM (part of Dosco) have demonstrated that they are able to supply international customers competitively and we plan to expand their footprint.

The Africa initiative

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There is ongoing investment in mining in neighbouring countries. Botswana and Namibia, where Hudaco has traditionally been well represented, have relatively mature and expanding mining industries. Investment activity in Mozambique, where substantial oil, gas and coal deposits have been discovered, grew rapidly in response to high commodity prices up to 2009 as it did in Zambia and southern Congo, where the investment environment for their copper deposits was initially made attractive once again to international mining companies. Commodity price weakness since 2009 has slowed expansion whilst threatened and actual changes in legislation since then have created uncertainty about the future security of these investments. Zimbabwe has the minerals, particularly platinum, but its indigenisation laws are onerous making it too difficult for international miners to achieve a return on capital invested.

Nevertheless, these neighbouring countries are or will be important new markets for Hudaco and we have set ourselves the task of ensuring we have an adequate presence there. Our objective is to increase sales to this region to R650 million by 2015. In 2011 they were 7% of sales or R205 million. In 2012 they were R256 million and in 2013 R362 million or 9%.

Black economic empowerment

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Hudaco supports initiatives designed to accelerate transformation within South Africa's economy and society to redress inequities of the past and believes that business can and should play a leading role. We believe that the pillars of the dti's Codes of Good Practice correctly identify the most important areas requiring effort.

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The group has been working with these codes for some years now and has achieved much. In terms of the codes, 25% of the group has been owned by black shareholders since 2007.

On 28 February 2013 the financing arrangements pertaining to the group's BEE transaction were restructured. Cadiz redeemed the preference share investment of R2,2 billion. As a result Morgan Stanley, the funder of the BEE transaction, having lost its security, exercised its option to put to Hudaco the debenture issued by Hudaco Trading Pty Ltd. Consequently, the BEE funding arrangements that were intended to be financed externally until August 2017 are now financed internally. This restructuring does not affect black ownership in the group.

This year the group spent R15 million on skills development, socio-economic development and enterprise development – specifically on areas required by the codes. Nearly all businesses in the group have achieved level 4 or better on the dti scorecard in 2013 notwithstanding that not all our customers recognise the dti Codes. Industry charters (particularly the mining charter) have their own requirements, while government and parastatals have developed unique requirements generally centred on a narrow focus of ownership of the business by black Africans only. These differing requirements are frustrating as our businesses can find they have excellent BEE credentials at one customer and none at another.

New requirements have been introduced this year both by the dti through its scorecard, and through Employment Equity (EE) legislation to achieve quotas (by another name), both for implementation in 2015. Penalties for non-compliance in the case of EE legislation are very harsh.

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Despite low staff turnover we continue to make meaningful progress on increasing black representation in senior management. Only five appointments were made into the senior management grouping of some 70 individuals this year. Of the five, three are black male, one is coloured male and one is Indian female. None were white. The transformation initiative prepares previously disadvantaged employees for senior appointment by devising and implementing training courses to equip them with the necessary skillsets; and through succession planning by identifying specific vacancies and, where possible, matching them with internal candidates with specific timelines to get their capabilities up to speed. We currently have two black Exco members, two black people and two women heading business units and six black chief financial officers, of whom three are women.

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The dispute with SARS over the BEE financing arrangements

In February and June 2013, stakeholders were advised that assessments had been received from SARS for the financial years 2007 to 2011 relating to certain aspects flowing from the implementation of the BEE structure. SARS has set out detailed descriptions of other complex arrangements connected to the structure and entered into by third parties without Hudaco's knowledge or suspicion, and which presumably resulted in tax leakage to the fiscus. The amounts assessed by SARS comprise R1,3 billion under the general anti-avoidance regulations (GAAR) and R0,6 billion under alternative grounds of Hudaco having allegedly become entitled to an amount because of the security arrangements.

Based on advice from senior counsel, Hudaco remains confident of refuting the assessments. Hudaco has lodged objections to the assessments and awaits a response thereto from SARS. Hudaco has also filed a court challenge to have them set aside as invalid and will continue to pursue all appropriate legal remedies.

In respect of the requirement to "pay now, argue later", rather than face a demand for the full amount, Hudaco has agreed to pay R20 million per quarter commencing in July 2013 and the remainder will be deferred until the legal process has run its course, which Hudaco estimates is likely to take two to three years. Any overpayment will be reimbursed with interest. We hope that despite receiving these payments, SARS will expedite the legal process.

Appreciation

During this year Dolly Mokgatle resigned as a non-executive director after a relatively short stint on the board due to other commitments. We thank her for her service. We welcome Paul Baloyi who joined the board as a non-executive director in July 2013. Thanks are extended to Hudaco's other non-executive directors for the contributions they make to the board and its committees. Thanks also to the executive and senior management of the group for their achievements in this difficult year. Furthermore, we take this opportunity to thank all employees for their efforts and our suppliers and customers for their ongoing support.

Prospects

The South African mining industry and the manufacturing and service sectors supporting that industry account for about half of Hudaco's sales. Low commodity prices and insufficient infrastructure, particularly electricity and rail capacity, are short-term issues impacting these industries. Longer term challenges, affecting their very viability, include annual strikes. It indeed becomes more challenging each year to do business in South Africa. Prospects in neighbouring countries are better but commodity price weakness and the threat of new indigenisation legislation negatively affect investment decisions.

Consumer spending appears to be weakening but our businesses are positioned in niche areas which we believe will continue to perform satisfactorily.

Until economic circumstances improve we foresee only modest organic volume sales growth in South Africa although exports into Africa should grow a little faster. Earnings in 2014 will however be impacted positively by a combination of factors; pricing to replacement, cost reductions effected in 2013 and the contribution from recent acquisitions, particularly Dosco, GPM and Joseph Grieveson, which have come into the group from December 2013.

RT Vice
Chairman

SJ Connelly
Chief executive

30 January 2014

Stakeholder engagement

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

We have rated the following stakeholders as the most significant (in no particular order) based on the likelihood that they will access and use this report, our ability to provide information that will be useful to them and their level of interaction with the group:

- Shareholders and investors, current and future, private and institutional;
- Staff: the 2 688 people in Hudaco's 24 businesses; and
- Principals/suppliers.

The table below details the issues considered by stakeholders to be material. These were determined through our stakeholder engagement process, which included discussions with members from each of the stakeholder groups, either directly or through executives of our businesses. At interim results discussions, the investment community were invited to suggest further disclosure where they identified a need for specific information, as were bankers during annual review meetings. Not surprisingly, the status of the challenge by SARS relating to the financing arrangements of our BEE transaction was a major topic of interest this year for several categories of stakeholders. The relevance of the various sections of this report to the different classes of stakeholders is set out on the inside front cover.

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Stakeholders' material issues

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

Stakeholders' material issues

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

Risks and mitigation

Key risks

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

Risk	Explanation	Potential exposure	Mitigation	Residual risk assessment	Associated opportunity
Foreign exchange rate risk – significant strengthening of the Rand Pg 25	If the Rand strengthens, the purchase prices of our products drop and selling prices must be reduced to remain competitive. This reduces gross profit and since our expenses are Rand-based, they do not decline. Net operating profit decreases. (See page 25.)	For each 10% by which the Rand strengthens, operating profit decreases R100 million per annum.	Management of quantities and lead times helps to delay the impact. Management intervention to increase gross margins. The primary risk cannot be mitigated.	Variable depending on extent. This risk is integral to our strategy of holding inventory to provide customers with ready availability of imported goods with long lead times.	A sustained weakening of the Rand by more than the inflation rate without significant volatility would result in gross profits rising faster than expenses, increasing the operating profit margin.
Inadequate supply of electricity	The lack of electricity is a constraint on GDP, a significant driver for Hudaco, and is likely to remain an issue until 2015. The mining industry, in particular, tends to be affected when power is in short supply.	Unable to quantify.	Geographic diversification to other southern African countries. Acquiring businesses that serve different sectors, some of which are less dependent on electricity supply.	Some impact is being felt. This risk is integral to our strategy of supplying to industries that happen to have high electricity requirements.	Potential to sell batteries and generators to industry.
Credit risk	Although credit risk is well spread and larger debtors are usually blue chip, government now awards large contracts to new BEE entities, on which we have to take credit risk.	R40 million.	We manage the delivery process as closely as possible and strive to find other ways to minimise this risk.	Unlikely. This risk is a consequence of BEE procurement.	If managed well, there are significant opportunities in supplying the requirements of government.
Not meeting BEE requirements	Although Hudaco has put in place an appropriate BEE shareholding structure and targets on the dti scorecard have been achieved, this is against a backdrop of ever changing requirements. Certain industries (eg mining) have their own charters with different requirements. Sales may be lost through not having adequate BEE credentials.	Unable to quantify.	The group transformation and human resources executive monitors legislation and charter requirements to keep our businesses abreast of new requirements. He helps to ensure the necessary certifications have been obtained by each business. Aspects such as ownership requirements are escalated to board level.	Less than even chance. This strategic risk is part of doing business in South Africa and is always front of mind in operations.	We have been able to grow the group through acquisitions because we offer strong BEE credentials to vendors. Also, competitors are faced with the same BEE challenges so we are able to attract business from those that fall short of requirements.
SARS challenge on financial arrangements for BEE transaction Pg 24	The restructuring of the group in 2007, which was aimed at introducing BEE shareholders, resulted in a low effective tax rate. SARS has issued assessments for 2007 to 2011 totalling R1,9 billion, including interest and 200% penalties. If double counting is removed and the calculations are rolled forward to 30 November 2013, the maximum exposure is estimated at R1,7 billion.	R1,7 billion, but even if a payment is required, this amount is considered remote.	When the structure was put in place, we obtained advice from senior counsel that our structure would stand up to scrutiny. This has been reconfirmed since receiving the challenge from SARS. We have lodged objections to the assessments and have applied to the High Court to have them set aside on various grounds, including constitutional aspects. The financing arrangements were restructured on 28 February 2013 so the source of the tax challenge no longer exists.	Unlikely. This risk was assumed in 2007 with the introduction of black shareholders through a leveraged transaction. This was to address the strategic objective of transformation.	No associated opportunity.

Risk	Explanation	Potential exposure	Mitigation	Residual risk assessment	Associated opportunity
Natural disaster at supplier or customer	A natural disaster could cripple a factory of a major supplier or the operations of a major customer.	R20 million.	We carry up to six months' stock which gives time to react to such an event. Major suppliers generally operate from several factories in different cities and/or countries. The loss of a factory could be disruptive to the supply of certain products but production would be quickly moved to other factories. The group has a widespread supplier and customer base and is not overly reliant on any single one. Insurance is held against supply interruptions.	Less than even chance. This is always a risk in a supply chain environment.	Natural disasters do not represent an opportunity to the group, except to the extent that those competitors whose suppliers do not have the same level of geographic diversification as ours may be affected more heavily.
Loss of key executives in businesses or at group level	Two members of the executive team have recently retired and two more reach retirement age within the next three years. The risk is that transition could have a significant negative effect on the group. Some businesses are sold to us as an exit strategy for some of the existing owners. Succession planning and integration into the group is therefore vital for sustainability of the business.	Unable to quantify.	The group has a formal succession policy. Succession plans are considered annually by the remuneration and nomination committee. Other members of the group executive team have developed in-depth knowledge of each business. The replacements for the two executives who retired were able to spend several months working under the guidance of their predecessors and two experienced people have been appointed to the executive committee. Earn-out periods keep vendors in acquired businesses to facilitate transition.	Highly unlikely. The risk is always prevalent but arises specifically through the strategy of growing the group by acquiring entrepreneurial businesses.	Retirement of members of the executive team creates visible opportunities to which the next level of management can aspire. This provides them with an incentive to prove their value through superior performance.
Loss of a major brand	While the portfolio of brands is diverse, there are two major brands the loss of which could have a significant effect on the results of the group. These brands, each of which contributes 10% to 15% of group operating profit, would be hard to replace.	Up to R60 million in operating profit per annum per brand.	Maintaining strong relationships with principals and serving them well in the South African market. This is monitored by the audit and risk management committee. The relationships with these brands is managed by the group chief executive. Acquisitions increase the number of suppliers and dilute exposure to these two brands. The element we cannot mitigate is the risk that a major principal ceases to exist.	Highly unlikely. This risk follows from the strategy of representing quality major international brands.	There would not be an opportunity associated with the loss of one of the group's two major brands. The loss of a lesser brand may present an opportunity to bring into the portfolio a brand that has something more to offer.
Poor acquisition	Acquired business performs well below expectations or exposes the group to significant unexpected risks.	R150 million.	Approving acquisitions on the basis of thorough due diligence reviews conducted by professionally qualified advisors and by our own experienced acquisitions team.	Unlikely. This risk is introduced by the strategy to grow the group by acquisition.	Quality acquisitions add significant value to the group.
Sustained labour unrest in the mining or manufacturing sectors	Of group turnover, 23% is sold directly to the mining industry and 26% into manufacturing, much of which is to service the mining industry.	R30 million.	The group has a diverse customer base both within and outside of mining. It is unlikely that all types of mining will be affected.	Better than even chance.	This provides an incentive to further diversify the customer base through extending our range of products and customer geographies.
Ineffective insurance	The risk that there is a major loss (eg through fire) and that the insurance claim is not met because the policy was defective or the insurer fails.	R100 million.	Insuring through reputable long-established underwriters and engaging high-quality insurance brokers as advisors.	Will not occur.	No associated opportunity.

Board of directors

Non-executive directors

Royden Vice (66)
BCom, CA (SA)
Independent non-executive chairman of the board and the nomination committee and member of the remuneration committee

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

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

Paul Baloyi (56)
MBA (University of Bangor Manchester), MDP, AMP (INSEAD), SEP (Harvard)
Independent non-executive director, member of the audit and risk management committee and nomination committee and chairman of the remuneration committee

Paul is currently the executive chairman of Talent 10 Holdings.

He has spent some 33 years in the financial services sector, with institutions such as The Development Bank of Southern Africa, Standard Bank and the Nedbank Group.

Paul has been an independent non-executive director on many boards locally and internationally. He is currently a member of the Institute of Directors, chairman of The African Capacity Building Foundation and serves on the boards of Old Mutual South Africa, Basil Read Holdings, Bidvest Group and Bidvest Bank.

Stuart Morris (68)
BCom, CA (SA)
Independent non-executive director, chairman of the audit and risk management committee and member of the remuneration and nomination committee

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

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

Stuart joined the board in 2009.

Dhanasagree "Daisy" Naidoo (41)
Masters in Accounting (Taxation), CA (SA)
Independent non-executive director, member of the audit and risk management committee and chairman of the social and ethics committee

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

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

Daisy joined the board in March 2011.

Executive directors

Stephen Connelly (62)
ACMA
Chief executive and executive committee chairman

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

Clifford Amoils (52)
BCom, BAcc (Cum laude)
CA (SA)
Group financial director and member of the executive committee and social and ethics committee

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

He joined the board in 2009.

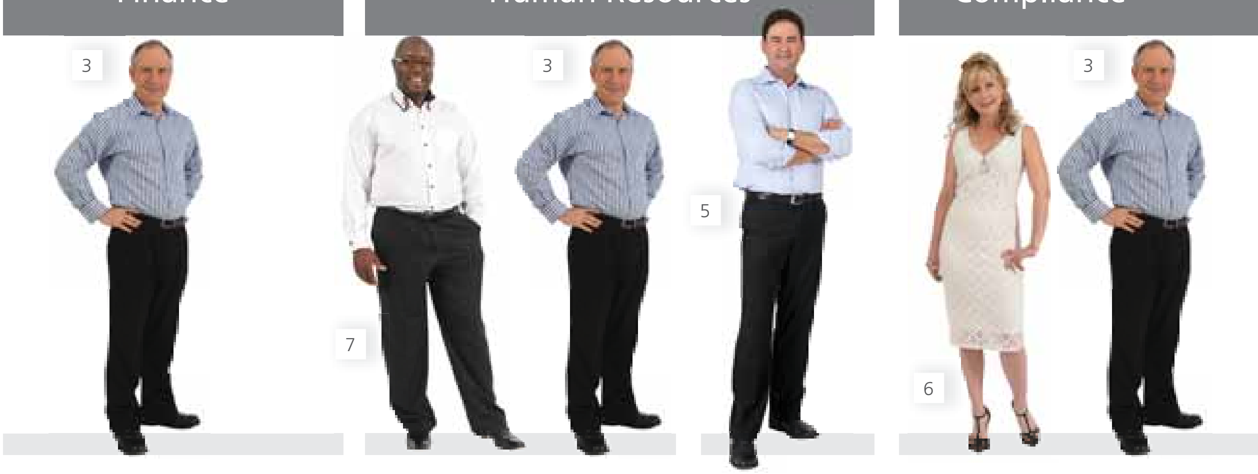
Graham Dunford (49)
N Dip: Mechanical Engineering
CEO: Bearings and power transmission and member of the executive committee and social and ethics committee

Graham joined Hudaco in 2001 when it purchased Bauer Geared Motors, where he was the managing director. He became CEO: Electrical power transmission in 2005, CEO: Power transmission in 2009 and CEO: Bearings and power transmission in 2010. He was appointed executive director in July 2010 after serving as an alternate director from January 2009.

Executive committee

GROUP SERVICES

Finance	Human Resources		Compliance



Finance	Human Resources		Compliance
Finance Accounting Risk Treasury Tax	Transformation Human resources	Occupational Health and Safety	Group secretarial

CONSUMER-RELATED PRODUCTS

Power tools	Security equipment	Communication equipment	Automotive	

Power tools	Security equipment	Communication equipment	Automotive	
Rutherford	Elvey Security Technologies	Global Communications	Deltec Specialised Battery Systems	Abes Technoseal

1

Chief executive

1 Stephen Connelly (62)
ACMA
Chief executive
31 years' service

2 Graham Dunford (49)
N Dip: Mechanical Engineering
CEO Bearings and power transmission
25 years' service

3 Clifford Amoils (52)
BCom, BAcc (Cum laude), CA (SA)
Financial director
Five years' service

4 Jack Edery (62)
BCompt (Hons), CA (SA)
CEO Elvey Security Technologies
18 years' service

5 Ossie Carstens (48)
N Dip Mechanical Engineering; GCC (Mechanical) MBA
CEO Deutz Dieselpower and non-executive chairman of Belting Supply Services, Deltec and SBS
Five years' service

6 Reana Wolmarans (47)
BProc, LLB, H.Dip: Labour Law
Group secretary
Five years' service

7 Jonny Masinga (36)
N Dip: HR Management, B Tech: HR Management, B Tech HR Development, MAP
Group executive: Transformation and human resources
Three years' service

8 David Allman (55)
S.A.I.M. Advanced Dip: Marketing Management S.A.I.M. Advanced Dip:
CEO Abes Technoseal, Astore Africa and Keymak
27 years' service

9 Barry Fieldgate (52)
CEO Filter and Hose Solutions
Six years' service

Service is with Hudaco and businesses acquired.

Africa

2

1

Africa development

ENGINEERING CONSUMABLES

Bearings and Power Transmission

9

Filter and Hose Solutions

5

Belting Supply Services

8

Astore Africa
Keymak

2

Ambro Sales
Bearings International
Bosworth
Dosco
Ernest Lowe
Joseph Grieveson
Powermite
Varispeed

Diesel Engines and Spares

5

Deutz Dieselpower
DD Power

Financial review

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

Measurement of financial performance

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

- The restructuring of the financing arrangements relating to our BEE structure on 28 February 2013 which had the effect of increasing the group's tax charge significantly and has reduced earnings per share by 94 cents in 2013.
- A significant charge against profit because the performance of businesses acquired in recent years exceeded expectations, resulting in larger earn-out payments than expected. This appears counter-intuitive but the revised IFRS 3 requires that, where a business is acquired on the basis of a contingent purchase consideration, changes to the estimated purchase price be recognised in profit for the year. This charge reduced earnings per share by 63 cents.

Comparable earnings have been calculated as if the restructuring of the financing of the BEE transaction had taken place before the start of the 2012 financial year and also exclude the effect of fair value adjustments for earn-out payments on acquisitions.

We measure our financial performance as follows:

- We target real growth in comparable earnings per share over the medium and long term. Comparable eps for 2013 is 983 cents as compared to 947 cents in 2012. Compound growth in comparable eps over the past 10 years has been 10,4%, from 365 cents in 2003.
- Hudaco aims to achieve earnings growth at a rate at least in line with the earnings of the All Share Industrial Index (J257). Since 2003, earnings in the J257 showed compound growth of 16,4%. To achieve this, we encourage our businesses to grow while producing a return over time exceeding the cost of capital. Our failure to outperform or at least match the growth in the industrial index is indicative of the difficulties in achieving growth with the turmoil in our core markets of mining and manufacturing.
- The main operating performance measure used by the group is RONTA – the return (PBITA) on average net tangible operating assets (NTOA) employed during the year. NTOA is total assets excluding investments, goodwill, intangibles and cash, less current liabilities excluding interest-bearing debt. Each business is measured against its own benchmark – its objective being to maximise its RONTA by managing the balance between the operating profit margin (%) and net operating asset turn (times). The lower the operating profit margin, the higher the net operating asset turn has to be to achieve a return exceeding the cost of capital.

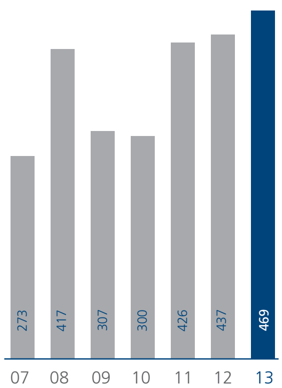
Industrial distribution businesses such as ours typically generate an operating profit margin of between 8% and 15%. A NTOA turn of between three and four times is usual and requires management to achieve the right balance between the elements of working capital, ie inventory, receivables and supplier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

A RONA of 15% roughly equates to the pre-tax cost of capital at current interest and income tax levels. We use this as the 'hurdle rate' for new investments. We have set an internal target of RONTA of no less than 30% for the group as a whole. In 2013 the return on net tangible operating assets was 37% (2012: 39%).

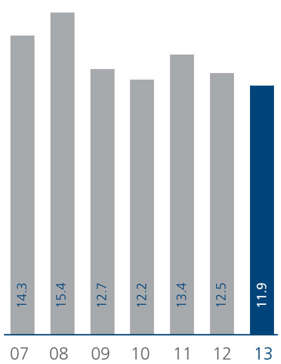
Dividends

Hudaco's long-term dividend policy is to pay interim and final cash dividends to shareholders totalling approximately 40% of comparable earnings, resulting in dividends being covered by earnings by about 2,5 times. This year's dividends per share total 465 cents, the same as last year, notwithstanding the additional tax burden borne by the group, and are made up of an interim dividend of 155 cents and a final dividend of 310 cents. The result of maintaining the dividend in spite of the increased tax charge is that the dividend represents 47% of comparable earnings. It is the intention of the board to hold the dividend, even though the cover is lower than usual and to rather allow the cover to reach normal levels through growth in earnings.

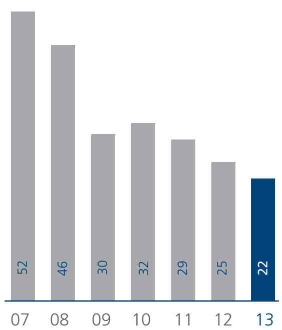
Operating profit (Rm)



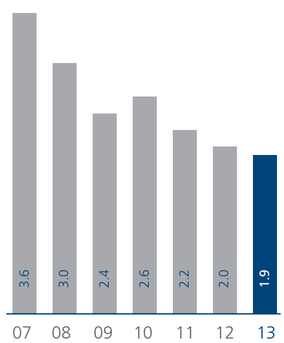
Operating profit margin (%)
Operating profit/Turnover



Return on NOA* (%)
Operating profit/Average NOA



NOA* turn (times)
Turnover/Average NOA



** Net operating assets.*

Clifford Amoils
Financial director

Cash flow

Hudaco businesses are cash generative. The decline in the Rand this year against the basket of currencies we purchase has meant that our imports are costing approximately 17% more than at the end of 2012. This has absorbed cash into inventories but will release cash with added margin when the goods are sold in due course. The recent mining and automotive industry strikes and slow recovery have temporarily put the brakes on the generation of cash.

Cash flow from operating activities of R206 million, after investing R138 million in working capital and paying R169 million in taxation, was very respectable. R164 million was paid out as dividends, net finance costs were R16 million and R32 million was spent on property, plant and equipment. R181 million was invested in new businesses, which included earn-out payments and this was funded by increasing net borrowings by R187 million to R204 million.

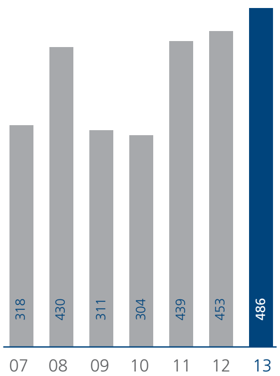
Borrowings

For several years Hudaco has been accused of having a "lazy balance sheet" and hence has been keen to introduce significant but conservative financial gearing. It has sought acquisition opportunities accordingly. At 30 November 2013, net borrowings amounted to R204 million. Primarily to fund the acquisitions of Dosco, Joseph Grieveson and Specialised Battery Systems and the final earn-out payment for Filter and Hose Solutions, in December 2013 Hudaco contracted for a R300 million revolving credit facility with ABSA Bank Limited at an interest rate of JIBAR plus 1,85%. Of this, R100 million will replace existing borrowings.

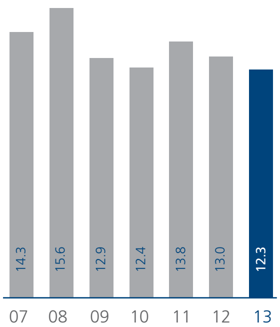
Hudaco has the capacity to take on more senior debt and our acquisition strategy may create the opportunity to do this in future. However we would aim to operate with net senior debt no higher than 50% of total shareholders' funds. Perhaps more important than managing gearing is an objective to ensure that interest on senior debt is covered at least five times by operating profit. We are also mindful of the potential impact on our capacity to borrow of perceptions arising from the challenge by SARS and will take this into account in evaluating acquisition opportunities.

When Hudaco's BEE transaction was put in place in 2007, funding of R2,2 billion was received from Morgan Stanley for Hudaco Trading Pty Ltd, the subsidiary in which the BEE shareholders hold their stake. The funding took the form of a debenture issued by Hudaco Trading and was secured by a pledge of preference shares issued to Barbara Road Investments Pty Ltd (BRI) by a company in the Cadiz group. Following a tax event as defined in the agreements, BRI asked Cadiz to gross up the preference dividend to leave BRI in the same after tax position. Cadiz exercised its right to redeem the preference shares as an alternative to grossing up the dividend. As the preference shares served as security for the debenture issued to Morgan Stanley, Morgan Stanley had the right to put the debenture to BRI in exchange for the proceeds of the preference shares and they exercised this right. The result is that the debenture that had been funded externally has, since 28 February 2013, been funded from within the Hudaco group and no longer appears on the group statement of financial position. The BEE shareholding has not been diluted.

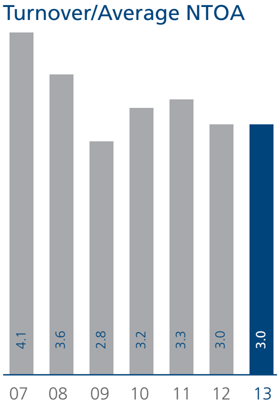
PBITA** (Rm)



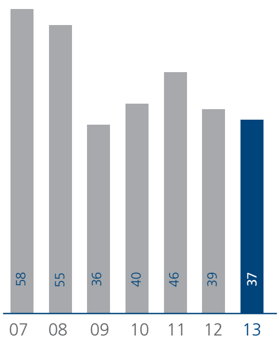
PBITA margin (%)
PBITA**/Turnover



NTOA*** turn (times)
Turnover/Average NTOA



Return on NTOA*** (%)
Operating profit/Average NTOA



*** Operating profit before amortisation.*

**** Net tangible operating assets.*

Taxation

The group's effective rate of taxation this year is 28% (2012: 12%). The main reasons for the increase in rate are the redemption on 28 February 2013 of the preference shares held in a Cadiz group company as part of the financing arrangements for the BEE transaction concluded in 2007 and the non-tax deductible fair value adjustment of R23 million on the earn-out payments for acquisitions.

The group is facing a challenge from SARS in relation to the funding arrangements for the BEE structure. In a SENS announcement on 12 February 2013, stakeholders were advised that assessments had been received from SARS for the financial years 2007 to 2011 relating to certain aspects flowing from the implementation of the BEE structure. SARS has set out detailed descriptions of other very complex arrangements connected to the structure and entered into by third parties without Hudaco's knowledge, or suspicion, which presumably resulted in tax leakage to the fiscus.

The amounts assessed by SARS comprise R1,3 billion under the general anti-avoidance regulations (GAAR) and R0,6 billion under alternative grounds of Hudaco having allegedly become entitled to an amount because of the security arrangements. The amounts are broken down as follows:

Tax on re-categorised interest imputed on Hudaco – R279 million, tax imputed on Hudaco as it allegedly became entitled to an amount because of the security arrangements – R143 million, impact of STC credits disallowed – R72 million, interest – R446 million, penalties – R987 million. It is assumed that SARS will take a similar approach in respect of the year ended 30 November 2012 and the three months to the redemption of the preference shares on 28 February 2013.

The maximum potential exposure, reflected as a contingent liability, is considered to be the assessment under GAAR of R1,3 billion plus a further R0,4 billion assumed for 2012 and 2013, including further interest and penalties.

Based on advice from senior counsel, Hudaco remains confident of refuting the assessments. Hudaco has lodged objections to the assessments and will continue to pursue all appropriate legal remedies. SARS was to have responded to these objections by mid-October 2013 but has invoked its right to extra time and now has until mid-February 2014. Hudaco has also lodged an application in the High Court to have the assessments set aside on a number of grounds, including constitutional aspects.

In respect of the requirement to "pay now, argue later", rather than face a demand for the full amount, Hudaco has agreed to pay R20 million per quarter and the remainder will be deferred until the legal process has run its course, which Hudaco estimates is likely to be two to three years. Two quarterly payments had been made by year end and these have been accounted for as taxation paid in advance. We hope that despite receiving these payments SARS will expedite the legal process.

The gross contribution to government in South Africa, comprising direct and indirect taxation, amounts to R407 million for the year ended 30 November 2013. The composition of this figure is set out in the value added statement on page 26.

Financial risk management

Significant financial risks in the group have been identified and are considered at each board, executive committee and audit and risk management committee meeting. These are described on pages 16 and 17. The impact of each risk is quantified and its probability is assessed. Measures are put in place to manage the risk, after which the residual risk is assessed. A risk tolerance line helps to ensure that any risks potentially greater than an acceptable level are identified early and avoided or mitigated. The ways in which the group manages foreign currency risk, interest rate risk, credit risk and liquidity risk are fully set out in note 24 to the financial statements.

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Pg 93, 94

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

Group services

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

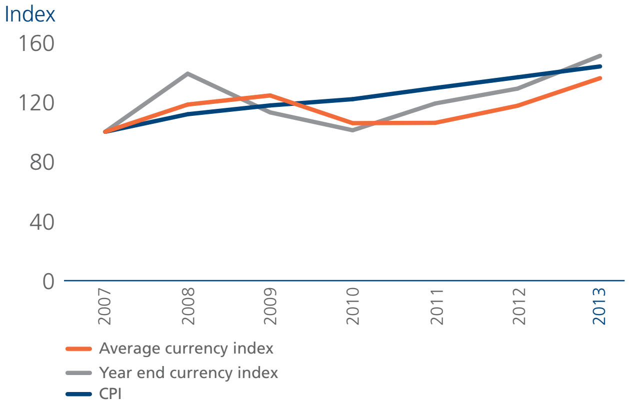
Impact of changes in foreign exchange rates

As Hudaco is predominately an importer, prices charged are linked to the Rand exchange rate. While Hudaco's sales line is affected by exchange rate movements, the group's expense line is affected by the local rate of inflation. This imbalance represents a real risk that sales could fall in response to a strengthening Rand whilst expenses, driven by local inflation, continue to rise. The result would be a margin squeeze. We estimate that a 10% strengthening of the Rand could result in a R100 million fall in operating profit over a full financial year. Similarly, sustained weakness in the Rand creates the opportunity for higher operating margins but currency volatility can either negate or postpone any favourable impact on earnings.

Over time, one would expect the Rand to weaken by the inflation differential between South Africa and its trading partners, allowing us to pass on imported inflation to our customers at roughly the same rate as the local inflation rate. As we are well aware, the Rand is volatile and does not follow the inflation rate differential in the short term. As an importer of our particular portfolio of products, we find ourselves exposed primarily to the Rand-Euro and Rand-Dollar exchange rates. Many of our suppliers manufacture from plants positioned all over the globe, and are therefore able to hedge themselves against currency exposures by shifting production capacity over time between currency regions.

The Rand depreciated significantly against the currencies of most developed economies over the 2013 financial year, which has been most welcome but the volatility the currency has experienced has made pricing a challenge and margins have been kept under pressure. They should improve as older inventory, ours and that of our competitors, works its way out of the system. The graph below shows how the weighted exchange rate index for the basket of currencies that Hudaco purchases has moved relative to the consumer price index (CPI).

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



We have taken out forward exchange contracts to meet future payment obligations in accordance with our hedging policies. Management of our foreign currency exposure is based on the principle of avoiding speculation. All foreign currency liabilities are hedged by the time ownership of the asset passes to Hudaco. In addition, approximately 30% of orders on suppliers are also hedged to guard against spikes in exchange rates.

Response times to exchange rate fluctuations through pricing changes, both up and down, have traditionally been fairly quick (about three weeks to a month) but there is a built-in cushion in our five-month stockholding so prices on all products may not change at the same time.

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

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

IT systems

In line with our decentralised business model, the management team at each business is free to select whichever IT platform it considers most appropriate for the business concerned. There is no centralised IT platform and standardisation is not imposed but businesses are encouraged to take a lead from those most satisfied with their reporting systems. Generally, little modification is required to off-the-shelf software. The IT Governance Committee provides input where appropriate and maintains an oversight role regarding control and best practice. For more information on how IT is governed in the group, refer to the Corporate governance report, specifically page 33. During the year Bearings International, which has the most sophisticated system requirements of all the Hudaco businesses because of its extensive branch network, installed and implemented the Sage X3 ERP system to replace its ageing previous software. It proved far more difficult to get the Sage system to meet the operational requirements than originally contemplated or than management had been led to believe. With the benefit of hindsight, it would probably have been more efficient to refine some of the operational processes to suit the offering in Sage than to try to modify the system. Undoubtedly, the delays in bedding down the installation impacted negatively on the results of Bearings International. Nevertheless, the problems are behind us and the system is now operating effectively.

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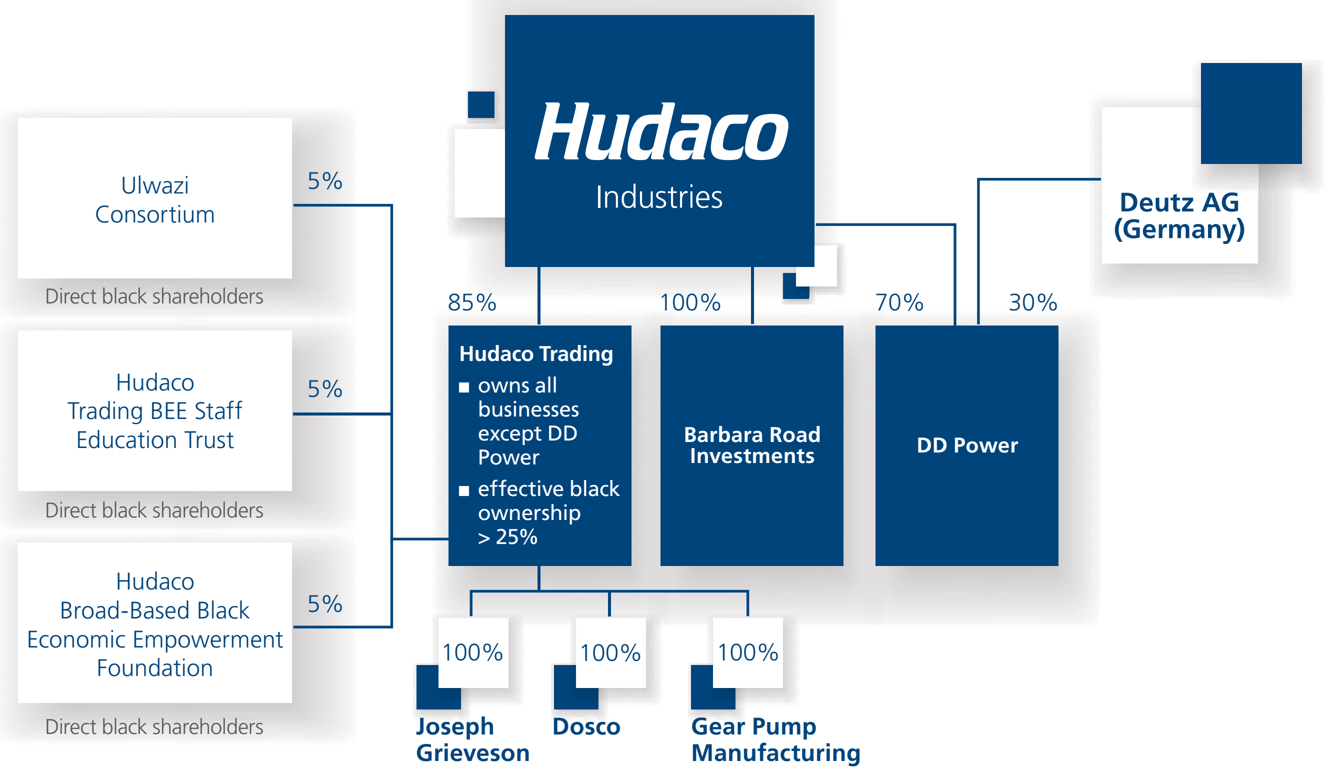
Abridged group structure



Value-added statement

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

Group value-added statement

R million	2013	2012
Turnover	3 942	3 492
Less: Cost of materials, facilities and services from outside	2 710	2 361
Value-added	1 232	1 131
Capital items	(23)	8
Dividends received on preference shares	50	202
Total wealth created	1 259	1 341
Distributed to:		
Employees – salaries, wages and other benefits	719	654
Government (gross contributions)	407	315
Indirect contributions, duties and levies	(286)	(268)
Net finance costs	70	250
Shareholders – dividends	164	163
Maintain and expand the group		
– profits retained	141	188
– depreciation, amortisation and impairment	44	39
Total wealth distributed	1 259	1 341

Statement of gross contributions to the Government in South Africa

R million	2013	2012
Company income tax and STC	121	46
Customs and excise duty	38	29
Skills development levies and assessment rates	7	7
Value-added tax not recognised as input credit	1	1
Direct contribution to Government	167	83
Add the following collected on behalf of the Government:		
Value-added tax (net)	112	106
Employees' tax	128	126
	407	315

Corporate governance

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.

Exceptions to King III

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

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

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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 36 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 website.

Board of directors

Board composition

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 18 and 19 of the integrated report. Hudaco does not have or allow shadow directors.

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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:

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

Board meeting attendance in 2012/2013

	Dec	Jan	Mar	Jun	Oct (Special Meeting)	Oct
RT Vice	✔	✔	✔	✔	✔	✔
CV Amoils	✔	✔	✔	✔	✔	✔
PC Baloyi*	n/a	n/a	n/a	n/a	✔	✔
SJ Connelly	✔	✔	✔	✔	✔	✔
GR Dunford	✔	✔	✔	✔	Recused	✔
DD Mokgatle	✔	✔	✔	✔	Apology	✔
SG Morris	✔	✔	✔	✔	✔	✔
D Naidoo	✔	✔	✔	✔	✔	✔

** Joined the board on 27 July 2013.*

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, Dolly Mokgatle and Stuart Morris, all of whom are independent non-executives. At the board meeting held on 24 October 2013, Paul Baloyi was appointed as member to the committee. He will chair the meeting when remuneration matters are discussed. Royden Vice chairs the nomination portion of the meeting.

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

The two committee chairmen report formally to the board on its proceedings after each meeting and attend the annual general meeting to respond to any questions from shareholders regarding the committee's areas of responsibility.

The committee operates under a board-approved mandate and terms of reference, which were reviewed in 2013. 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 2013

	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.

Paul Baloyi has been appointed as chairman of 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 bonus scheme awards;
- determine any criteria necessary to measure the performance of executives in discharging their functions and responsibilities;
- recommend fees for non-executive directors (including chairman and committee membership) to the shareholders;
- issue guidelines for general salary increases; and
- review the remuneration report and disclosure of directors' remuneration that appears in the company's integrated report.

Group remuneration policy

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

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

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

Overview of senior management remuneration

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

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

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

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

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

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

At the annual general meeting held on 28 March 2013, shareholders endorsed, through a non-binding advisory vote to ascertain shareholders' views, 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 primarily on the achievement of earnings growth and a pre-determined return on equity. The payment for earnings growth is not capped but is subject to partial claw-back. In 2013, 25% of the chief executive's possible performance-related earnings were re-allocated from these financial objectives to the following non-financial objectives:

- increasing black representation in senior management;
- succession planning, in particular for the Hudaco chief executive position;
- success in acquisitions;
- improving the image of the group; and
- 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 2014, certain non-financial objectives, similar to those for the chief executive, will be included.

In respect of the executive directors, up to 100% (115% from 2014) 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 paid in the year in which it is earned whilst the other half is carried forward and paid the following year but will be "clawed-back" if certain conditions have not been met. For other senior managers the percentage is up to 70% (80% from 2014) – otherwise the same rules apply.

Where considered appropriate, the committee pays bonuses based on an assessment of personal performance and in some cases, incentives are paid for the achievement of non-financial objectives. Directors are required to invest a portion of their bonuses in Hudaco shares. Refer to long-term remuneration below.

At its meeting in January 2014, the committee reviewed the performance of its businesses and executives and approved the payment of bonuses in accordance with the parameters described above. It also set parameters for the 2014 incentive schemes.

Long-term remuneration

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

In 2006 the group introduced a **share appreciation bonus scheme**. Share appreciation bonus rights are awarded every year. Participants in the scheme are paid a bonus, settled in Hudaco shares 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 comparable 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. From 2012, this was extended to include the level of employees directly below the senior managers. In 2013, 464 250 share appreciation rights were awarded to a total of 142 people.

In order to align better the interests of the executives with those of shareholders and to ensure that the executives have capital at risk in Hudaco, at its meeting in January 2014 the remuneration committee decided to introduce a **share matching arrangement** for executive directors who are three years or more from retirement. Applicable from their 2013 bonuses, directors will be required to invest in Hudaco shares a minimum of 12,5% and up to a maximum of 25% of their after-tax short-term incentive based remuneration. These shares are to be acquired on the open market. Provided the director holds these shares and remains in the employ of Hudaco for three years, the company will match the value of the shares. The precise structure of the arrangement will be determined over the next few months.

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

Executive directors' remuneration

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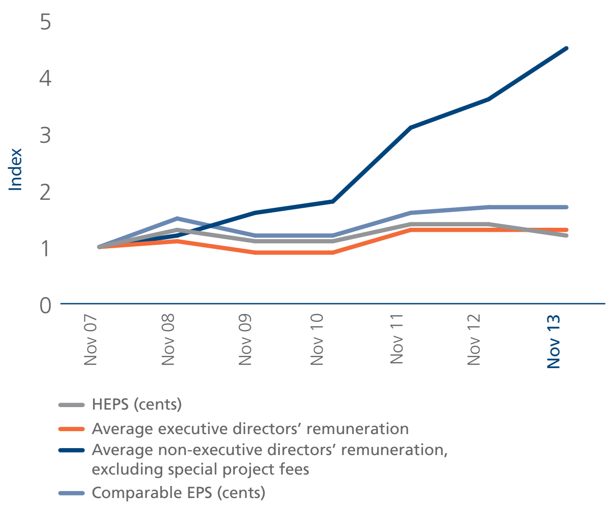
Details of executive directors' remuneration are set out in note 27.3 to the financial statements. A graph showing the correlation between executive directors' remuneration and earnings per share is set out below.

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

Average Directors' Emoluments vs Earnings



Directors' interests in the share appreciation bonus scheme

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Details of the directors' interests 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, which provide for retirement at age 65. 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' remuneration

Non-executive directors are appointed to the Hudaco Industries Limited board based on their specific skills and their ability to contribute competence, insight and experience appropriate to assisting the group to achieve its objectives. Non-executive directors are remunerated for their membership of the board of Hudaco and board committees. They understand their duties and responsibilities and what is expected from them as non-executive directors.

The non-executive directors are paid a base fee and are required to forfeit a specific penalty for non-attendance of a meeting. The fees and penalty amounts were approved by the shareholders on 28 March 2013 for the period 1 April 2013 until 31 March 2014.

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

The board recommends the fees payable to the chairman and non-executive directors for approval by the shareholders. Proposals for fees are prepared by management, for consideration by the remuneration and nomination committee and the board. Consideration has been given to the significant responsibility placed on non-executive directors due to the progressively burdensome legal and regulatory requirements and the commensurate risks assumed. Benchmarking information of companies of similar size and complexity are factors considered when reviewing the annual fees. At Hudaco's annual general meeting to be held on 27 March 2014, shareholders will be requested to approve the non-executive directors' fees for the period 1 April 2014 until 31 March 2015 as outlined in the notice of the annual general meeting.

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Non-executive directors' fees for the year ended 30 November 2013 are reflected in note 27.3 to the financial statements.

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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; and
- comply with corporate governance requirements in respect of matters such as the balance between executive, non-executive and independent non-executive directors on the board.

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

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

Board and committee assessments are conducted annually in the form of written responses and/or a one-on-one interview conducted by the chairman with each member of the board. The chairman's assessment is conducted by the board while the chief executive's assessment is conducted first by the remuneration and nomination committee and then the board. Issues identified by individual board or committee members will be addressed during 2014.

Audit and risk management committee

The members of the committee during the 2013 financial year were Stuart Morris (chairman), Dolly Mokgatle and Daisy Naidoo. On 24 October 2013, Paul Baloyi was appointed as member to the committee. Dolly Mokgatle stepped down on 24 October 2013.

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 most recently reviewed in March 2013.

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

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

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

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

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

- It nominated the audit firm Grant Thornton and audit partner Christo Botha for appointment by the shareholders at the forthcoming annual general meeting as the auditor for the 2014 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 2013 were approved and the scope of the proposed audit work was agreed.
- Any non-audit-related services to be performed by the external auditors require the approval of the audit committee on a case-by-case basis. The overarching criterion for approval being that the independence of the external auditors should not be impaired through the provision of services under

consideration. It was agreed that there will be a rebuttable presumption that non-audit fees totalling up to 25% of the budgeted annual audit fees will not alone impair the independence of the auditors.

- The committee confirmed the independence of the internal audit function and satisfied itself that internal audit is functioning effectively.
- 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.
- A query was received from the JSE regarding the goodwill disclosure in the financial statements for the year ended 30 November 2012. The JSE identified that not all of the detail required by IAS36.134(d) had been provided and this additional information is now included in the 2013 financial statements. The JSE also queried the basis on which goodwill had been assessed for impairment. They were ultimately satisfied that the basis applied had been appropriate and that no adjustment was required.
- No complaints, other than the query mentioned above, have been received relating to the accounting practices and internal audit of the company or to the content or auditing of the company's financial statements or its internal financial controls, or to any related matter.
- In terms of paragraph 3.84(h) of the JSE Listings Requirements, the committee has satisfied itself that the expertise and experience of the financial director are appropriate.

The committee further ensures that a combined assurance model is applied to provide a co-ordinated approach to all assurance activities. Through formal reports in committee papers and the attendance of all key executives involved with assurance, the committee is provided with a thorough review of the group's assurance activities. These reports include the principles of combined assurance through reports from management, internal and external audit. Attendees at committee meetings include the chairman of the company, 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; and
- ensured that IT governance and risk management continued to form an integral part of the company's risk management processes.

The key risks faced by the group are described on pages 16 and 17 of this integrated report.

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Audit and risk management committee meeting attendance 2013

	Jan	Jun	Oct
SG Morris	✔	✔	✔
PC Baloyi *	n/a	n/a	✔
DD Mokgatle	✔	✔	✔
D Naidoo	✔	✔	✔

** Appointed 24 October 2013.*

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

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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 17 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.

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.

As previously reported, assessments had been received from SARS for the financial years 2007 to 2011 relating to certain aspects flowing from the implementation of the BEE structure. The assessments were issued under the general anti-avoidance regulations as well as under alternative grounds of Hudaco having allegedly become entitled to an amount because of security arrangements. Hudaco has responded by objecting to the assessments and lodging an application in the High Court to have the assessments set aside. The maximum potential exposure reflected as a contingent liability at 30 November 2013 is approximately R1,7 billion. It increases by interest that would be charged on the amount that may ultimately be payable, if any.

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

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

Executive committee

The members of the committee for the year ended 30 November 2013 were: Stephen Connelly (chairman), Clifford Amoils, Bob Cameron-Smith, Ossie Carstens, Gilbert da Silva, Graham Dunford, Jack Edery, Jonny Masinga and Reana Wolmarans. Bob Cameron-Smith and Gilbert da Silva have since retired and David Allman and Barry Fieldgate have recently been appointed to the committee.

The executive committee is chaired by the chief executive, Stephen Connelly, and meets quarterly, prior to the board meeting. Its principal terms of reference are to advise the chief executive on the formulation of operating policy, the implementation of group strategy and the management of key group risks. The committee incorporates a safety, health and environment 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 2013

	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 2013 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, transformation and human resources executive and the executive responsible for the environment, health and safety, Ossie Carstens. Furthermore, the committee is entitled to invite other executives and senior managers of Hudaco to attend meetings as required in order to fulfil its mandate.

Hudaco's social and ethics committee monitors and oversees Hudaco's activities in relation to:

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

This appointment of the members of this statutory committee was ratified by shareholders at the annual general meeting held on 28 March 2013.

At the forthcoming annual general meeting, scheduled to take place on 27 March 2014, the chairman will be available to report to shareholders on the matters within its mandate in accordance with regulation 43(5)(c) of the Companies Act on Hudaco's performance with respect to the key focus areas of this committee.

Role and responsibilities

During the 2013 financial year the committee focused on Hudaco's strategy and performance in the following areas:

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

Legislation and codes of best practice

Hudaco re-affirmed its support for the ten principles of the UN Global Compact. Hudaco's standing in terms of the goals and purposes of these principles is generally sound, but 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. In 2013 the committee dealt with the following policies:

- socio-economic development;
- HIV/AIDS;
- employment grievance;
- anti-corruption; and
- corporate compliance.

In addition, the committee reviewed the Code of Ethics. This code is reviewed annually and compliance with the code is monitored by each business within Hudaco. During 2013 no major non-compliance with the code was reported.

The committee was provided with assurance by all the various businesses that they are continuing to comply with relevant legislation. The corporate compliance policy was specifically drafted to ensure that the group continues to be fully compliant and deals with the following:

- no breach of laws;
- no anti-competitive behaviour;
- no corruption;
- no inappropriate risks for human health or 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

The committee noted that most of the businesses within the group achieved level 4 ratings on the dti scorecard and Bearings International fared best by achieving a level 2 rating. The potential impact of the new scorecard was considered and a process was initiated to manage that impact. See page 48 for more details on black economic empowerment.

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The committee considered skills development and training within the Hudaco group and noted that, overwhelmingly, 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 55, 56 and 60 of the integrated report.

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Enterprise development and socio-economic development were also considered by the committee. Further information is set out on page 56 of the integrated report.

Labour and employment

It was confirmed that Hudaco aims to ensure a diverse and representative work profile through the promotion of employment equity. Fairness in dealings with employees is of utmost importance and the free flow of ideas and information between the businesses and their respective workforces are actively encouraged.

Hudaco seeks to encourage a climate of trust to ensure that employees are confident to air questions and problems arising during the course of their work thereby achieving quick resolution to the satisfaction of all concerned. To this end, the committee approved the adoption of a grievance procedure policy in 2013 applicable to all the businesses within the group. The Code of Ethics also plays an important role. See page 57.

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In 2014, the committee will continue to monitor good employment practices and implement improvements where required.

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Health and safety is an important element of the employment ethos of the group and is discussed on page 58 of the integrated report.

Environment

The committee considered the environmental issues facing Hudaco, which are not major, and tasked management with developing a plan on how to address some of the aspects identified for improvement. It is confirmed that Hudaco is aware of its social responsibility to protect the public and/or the environment from exposure to harm as a result of its activities. During the period under review no action undertaken by Hudaco was considered to be harmful to the public or the environment. Further information is set out on page 50 of the integrated report.

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Social and ethics committee meeting attendance 2013

	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 2013 the board considered and was satisfied with the competence, qualifications and experience of the group secretary, Reana Wolmarans. They concluded that an arm's length relationship had been maintained between the board members and the group secretary as required by the JSE Listings Requirements.

The certificate required to be signed by the group secretary in terms of section 88(2)(e) of the Companies Act appears in the annual financial statements on page 64.

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Share dealings

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

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

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

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

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

Relationship with stakeholders

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Hudaco's relationship with stakeholders is dealt with in the section on stakeholder engagement on pages 14 and 15.

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

Nedbank 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.

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

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

King III gap analysis

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

	Comply
Ethical leadership and corporate citizenship	
Effective leadership based on an effective ethical foundation	✔
Responsible corporate citizen	✔
Effective management of ethics	✔
Assurance statement on ethics in the integrated report	✔
Board and directors	
The board is the focal point for and custodian of corporate governance	✔
Strategy, risk, performance and sustainability are inseparable	✔
Directors act in the best interest of the company	✔
The chairman of the board is an independent non-executive director	✔
A framework for the delegation of authority has been established .The board comprises a balance of power, with a majority of non-executive directors who are independent	✔
Directors are appointed through a formal process	✔
Formal induction and ongoing training of directors is conducted	✔
The board is assisted by a competent, suitably qualified and experienced company secretary	✔
Annual performance evaluations of the board, its committees and individual members	✔
Appointment of well-structured committees	✔
An agreed governance framework between the group and its subsidiary boards is in place	✔
Directors and executives are fairly and responsibly remunerated	✔
Remuneration of directors and prescribed officers is disclosed	✔
The company's remuneration policy is approved by the shareholders	✔
Audit committee	
Effective and independent	✔
Suitably skilled and experienced independent non-executive directors	✔
Chaired by an independent non-executive director	✔
Oversees integrated reporting	✔
A combined assurance model is applied to improve efficiency in assurance activities	✔
Satisfies itself of the expertise, resources and experience of the company's finance function	✔
Oversees internal audit	✔
Integral to the risk management process	✔
Oversees the external audit process	✔
Reports to the board and shareholders on how it has discharged its duties	✔
Governance of risk	
The board is responsible for the governance of risk	✔
The board determines the levels of risk tolerance	✔
The audit and risk management committee assists the board in carrying out its risk responsibilities	✔
The board has delegated the process of risk management to management. The board ensures that risk assessments are performed on a continual basis. Frameworks and methodologies are implemented to increase the probability of anticipating unpredictable risks	✔
The board ensures that management implements appropriate risk responses	✔
The board receives assurance regarding the effectiveness of the risk management process	✔
Sufficient risk disclosure to stakeholders	✔
Governance of information technology	
The board is responsible for the governance of information technology (IT)	✔
IT is aligned with the performance and sustainability objectives of the company	✔
Management is responsible for the implementation of an IT governance framework	✔
The board monitors and evaluates significant IT investments and expenditure	✔
IT is an integral part of the company's risk management. IT assets are managed effectively	✔
The audit and risk management committee assists the board in carrying out its IT responsibilities	✔
Compliance with laws, rules, codes and standards	
The board ensures that the company complies with applicable laws and considers adherence to non-binding rules, codes and standards	✔
The board and each individual director and senior manager has a working understanding of the effect of laws, rules, codes and standards applicable to the company and its business	✔
Compliance risk forms an integral part of the company's risk management process	✔
The implementation of an effective compliance framework and process has been delegated to management	✔
Internal audit	
The board ensures that there is an effective risk-based internal audit	✔
Internal audit follows a risk-based approach to its plan	✔
Internal audit provides a written assessment of the effectiveness of the company's system of internal controls and risk management	✔
The audit committee is responsible for overseeing internal audit	✔
Internal audit should be strategically positioned to achieve its objectives	✔
Governing stakeholder relationships	
The board appreciates that stakeholders' perceptions affect the company's reputation	✔
Management proactively deals with stakeholder relationships	✔
There is an appropriate balance between its various stakeholder groupings	✔
Equitable treatment of shareholders	✔
Transparent and effective communication with stakeholders	✔
Disputes are resolved effectively, efficiently and as expeditiously as possible	✔
Integrated reporting and disclosure	
The board ensures the integrity of the company's integrated report	✔
Sustainability reporting and disclosure should be integrated with the company's financial reporting	✔
Sustainability reporting and disclosure should be independently assured	1

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

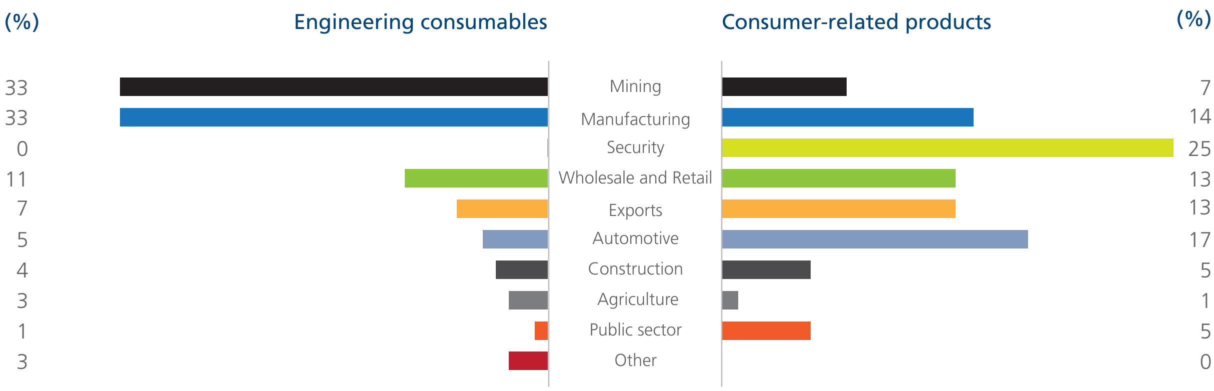
Review of **operations**

Abes Technoseal – quality clutches for the automotive aftermarket

We hold distribution rights mainly on an exclusive basis for excellent product brands. These rights usually cover Africa, south of the equator. Our most important group objective is to optimise growth within our existing portfolio of businesses through improving their geographic spread, expanding their product offering and increasing market share. Growth is augmented by the acquisition of additional agencies, mainly through acquisitions.

As Hudaco is principally an importer, prices are mainly determined by exchange rates. The significant fall in the Rand rate of exchange (by 15% against the US Dollar) in 2013 will inevitably result in price increases of the same magnitude. However, the high volatility of the currency meant that notification of price increases during the year frequently had to be withdrawn only to be later reinstated as the Rand weakened again. As a result, the full impact of the decline in the Rand (providing it does not strengthen again) will only be felt in 2014.

Sales by market sector – 2013



Engineering consumables

The primary business of this segment is the supply of replacement parts for mining and industrial machinery.

It comprises the following main businesses and activities:

- Bearings International (BI) has over 40 branches across southern Africa. The main bearing brand distributed is FAG.
- Deutz Dieselpower represents Deutz AG – one of the world's leading independent manufacturers of air cooled and liquid cooled medium-sized compact diesel engines.
- Filter and Hose Solutions (FHS) is a leading distributor of Donaldson filters and filtration solutions, kits and accessories for heavy duty and automotive applications.
- Power Transmission products is a collective term for the following Hudaco businesses supplying mechanical and electrical power transmission products: Ambro Sales, Ampco, Astore Africa, Belting Supply Services, Bosworth, Ernest Lowe, Midrand Special Steels, Powermite, Three-D Agencies, Proof Engineering and Varispeed. Dosco (including GPM) and Joseph Grieveson were acquired just after the end of the 2013 financial year. They manufacture and distribute similar products to the above.

Astore Africa – thermoplastic pipes and fittings

Performance

In 2013 the engineering consumables segment comprised 63%; (last year: 65%) of group turnover and 59% (last year: 62%) of group operating profit. Turnover grew by 9% to R2,5 billion and operating profit grew 4% to R292 million.

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Hudaco's engineering consumable businesses are geared towards general economic activity (GDP). Fixed investment (GDFI) spending is important to our businesses but mostly because it creates more economic activity. This characteristic makes earnings of this segment less cyclical compared with, for instance, sellers of capital equipment. During economic downturns customers do reduce activity and often mothball capital equipment from which they can strip replacement parts. This obviously impacts on our sales but it generally does not last long and demand soon resumes. Being low value, critical items, our products are generally not very price sensitive.

The main brands stocked by Hudaco are of European, USA or Japanese origin. We are often asked if there is a threat of cheaper Chinese and Indian brands taking market share from Hudaco. Clearly there is if we are not alert. However, currently, machines sourced from these countries are of inconsistent quality with spare parts often not readily available. Customers are still reluctant to gamble by buying cheaper machines or copy parts with an unknown brand because the downtime consequences of fitting substandard parts significantly outweighs the cost saving. When manufacturers in these countries reach the appropriate quality to price standard – as they eventually will – we believe Hudaco will be a logical and sought-after local distributor. We do already carry many brands from these countries alongside our more established brands and increasingly offer them to customers when we are confident that quality matches the application.

Refer to page 43 for a geographic analysis of the source of supply of the engineering consumables product range.

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The three biggest businesses in this segment are reviewed in detail with the balance being reviewed as a group under the heading "Power Transmission Businesses".

Bearings International – keeping the wheels of industry moving

Bearings International (BI)

Bearings International has a broader exposure to the general economy through its 40+ branch network than other businesses in this segment. Financial results in 2013 were mediocre. Daily sales levels were consistently below expectations in the first half of the year but we anticipated that trading in the second half would show an improvement over the previous year's which was badly affected by the turmoil of the mining strikes. However, this turned out not to be the case as severe strikes in the automotive segment and intermittent strikes in the mining and other sectors affected demand. BI's (and Hudaco's) annual sales pattern of 45% in the first half of the year and 55% in the second half is being disrupted by what is becoming an annual strike season in August to October each year and our future planning needs to take this into account. In response to what we anticipate to be a fairly long-term demand disruption, annual costs were reduced by R15 million in the last months of the financial year which will impact favourably on 2014 results.

The period 2012 to 2014 has and will see significant management changes in this business as five senior managers including the CEO retire. We have been fortunate to be able to replace them with a combination of internal and external experienced candidates, including three BEE appointments. A new ERP system was installed during 2013.

Principal brands: Bearings International

FAG	Koyo	Kaydon	Cooper
Precision bearings from Germany.	Ball and roller bearings from Japan.	Thin section bearings from USA.	Split roller bearings from UK.
Distributor since 2005	Sole distributor since 1962	Distributor since 2008	Sole distributor since 1937

Bearings International – heavy duty chain for the sugar industry

Belting Supply Services – providing conveyor belting and industrial hose requirements

Belting Supply Services – humble beginnings

Belting Supply Services – Half a century

BELTING SUPPLY SERVICES
specialists in conveyor and transmission belting

Belting Supply Services' (BSS) success factors over the last 50 years have been the world renowned brands, a good product range as well as highly trained management and staff, who have an average of 20 years' service with the company.

BSS was established in 1963 by a Mr Hayter in Langlaagte and now operates from a 10 000m^2 facility situated in City Deep. The business grew rapidly from the outset, opening branches in Kimberley, Cape Town and Port Elizabeth. It was acquired by Hudaco in 1988 as part of the Frencorp acquisition.

Initially it specialised in transmission products such as V-belts, V-pulleys, taper bushes, couplings, gearboxes and chain and later became a stockist of rubber conveyor belting.

In 1968 BSS was appointed sole distributor for southern Africa for Habasit conveyor and transmission belting. In 1978 it acquired a conveyor manufacturing plant from Brenflex in Australia and started manufacturing a unique PVC conveyor belt which was branded Trekflex. From then until the closure of the plant in 2012, BSS was the only manufacturer of "ply" PVC conveyor belting in southern Africa.

In 1995, KZN-based business Swift Industrial Supplies was merged into BSS, thus bringing industrial hose into the product offering of all nine branches around South Africa. BSS was appointed the sole distributor in southern Africa for NCR hose, which carries the SABS stamp of approval. Industrial hose now contributes about 25% of BSS's turnover.

Deutz Dieselpower (DDP)

Deutz diesel engines are designed (and priced) for constant load applications and its main market is the mining industry. Underground mining – gold and platinum – accounts for 60% of sales. Most Deutz engines sold in the southern equatorial African region – broadly the geographical area for which DDP has responsibility – are fitted to equipment manufactured in other parts of the world and imported by original equipment distributors such as Sandvik and Atlas Copco.

Deutz Dieselpower – diesel engines designed for constant load applications

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

DDP was badly affected by the strikes in the second half of 2012 which took place in the platinum and gold mining sectors particularly. Early in 2013 it became clear that the impact was a permanent reduction in gold and platinum mining and that DDP's sales and profits would be lower again in 2013. In response, in the first half of this year, annual costs were reduced by R10 million which will have a favourable effect on 2014 results.

The outlook for 2014 is reasonably positive. The Department of Mineral Resources is taking steps to regulate the level of diesel particulate emissions underground, which will be an advantage for Deutz engines which already comply with European emission regulations, the most stringent in the world. A branch has been opened in Zambia to take advantage of the growth in underground copper mining there. Successes have also been scored in genset applications, particularly in the communications sector where continuous application and service backup carries more weight with customers than price alone.

Principal brand: Deutz Dieselpower

DEUTZ

Air and liquid-cooled engines from Germany 22 – 520Kw.

Sole distributor since 1969

Filter and Hose Solutions –
sophisticated filtration solutions

Filter and Hose Solutions

Filter and Hose Solutions (FHS) had another good year. The business continues to take advantage of demand for higher performance (and higher cost) fibreglass fuel, oil and air filters demanded by new generation diesel engines utilising high pressure injection systems introduced to cut emissions. These engines, operating in dusty open cast mining applications, are FHS' main market. Open cast mining continues to grow (while underground mining is shrinking) particularly in neighbouring countries, and has been less affected by strike activity.

The business ended its three-year earnout period in September 2013 and we are pleased that the management of the business (and previous shareholders) have largely decided to stay on in the group with the CEO, Barry Fieldgate, joining Hudaco's executive committee.

Prospects for 2014 are good.

Principal brands: Mechanical power transmission

European pneumatic equipment.	Thermoplastic valves from Austria.	Industrial hose from Thailand.	Transmission and conveyor belting from Switzerland.	Heavy duty filtration systems from USA.	High performance industrial hose from Malaysia.	High performance hydraulic filtration from Italy.
Sole distributor since 1959	Sole distributor since 1995	Sole distributor since 2002	Distributor since 1970	Distributor since 1994	Sole distributor since 2003	Sole distributor since 2003

Power Transmission Businesses

Powermite had another good year, and whilst it did not manage to increase profits, it made good progress in expanding its specialised cable business. Bosworth had an excellent year and starts 2014 with a reasonable order book. The specialised steel businesses performed better than in 2012 but the market still suffers from low demand and over supply. Ernest Lowe, under new management, made a very pleasing improvement in performance in 2013, as did Astore Africa.

Dosco – hydraulic gear pump service and distribution

Outlook for the engineering consumables segment

As mentioned, two macroeconomic factors affect the performance of the engineering consumables segment:

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

The mining sector in South Africa is heavily dependent on support from the local manufacturing industry.

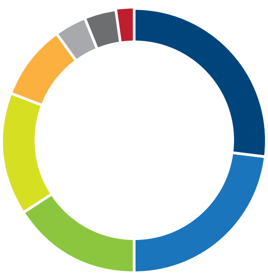
These two market segments are significant users of engineering consumables and represent 66% of this segment's sales. The outlook for mining in South Africa remains muted and is likely to remain so until the resumption in growth in the world economies fully takes hold and commodity prices rise in response to recovering demand. Hopefully infrastructure constraints (electricity and rail capacity mainly) in South Africa will be behind us by then and labour relations more settled.

The significant decline in the Rand exchange rate in 2013 will continue to filter through to pricing in 2014.

Principal brands: Electrical power transmission

YASKAWA	BAUER	AMPCO	MENNEKES®	Conductix Wampfler
Variable speed drives from Japan.	Geared motors from Germany.	Own range of electrical plugs and sockets.	Plugs and sockets from Germany.	Electrical feeder systems from Europe.
Sole distributor since 1992	Sole distributor since 1989	Since 1974	Sole distributor since 1974	Sole distributor since 1970

Engineering consumables Source of products – 2013



	(%)
South Africa	27
Germany	23
European Union – other	16
China	15
USA	9
Japan	4
Asia – other	4
Other	2

Bosworth – 70 years

Bosworth was founded in 1943 by Walter Bosworth, an artisan from Rand Gold Mines.

He began repairing farm equipment, bicycles and did small general welding jobs. The firm grew and began doing larger fabrication work, winning several tenders for fabrication work at the local mines.

In the early 1950s Bosworth Steel Structures, as it was known, moved into their current premises in Alrode, Alberton. Walter passed away in 1958 and his wife Daphne Bosworth took over as managing director with the help of Franz Moravec.

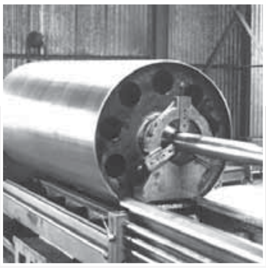
During this period Bosworth pioneered the South African fabricated conveyor pulley and was the sole manufacturer of conveyor pulleys in South Africa.

In the early 1980s Bosworth diversified into forgings and purchased forging hammers that are still in operation today.

In 1986 Valard bought Bosworth from Alan Bell, the owner who was married to Nora Bell (née Bosworth). Bosworth became part of the Hudaco group in 1992 when Hudaco bought Valard.

Today Bosworth is still the largest conveyor pulley manufacturer in South Africa with a substantial international client base. The forge is still in operation and Bosworth continues to produce high quality products for the mining and industrial markets.

Bosworth – standing the test of time: South Africa's largest manufacturer of conveyor pulleys



Consumer-related products

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

This segment comprises the following main businesses and activities:

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

Refer to page 47 for a geographic analysis of the source of supply of the consumer-related products range.

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Performance

In 2013 the consumer-related products segment comprised 37% (last year: 35%) of group turnover and 41% (last year: 38%) of group operating profit. Turnover grew by 20% to R1,5 billion whilst operating profit grew 18% to R199 million.

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

Rutherford

Rutherford enjoyed a good sales year consolidating its high market share in the industrial power tool market. However, margins fell as price increases, directly linked to a weakening in the Rand, were difficult to achieve due to the currency's volatility and the long lead times required by retailing customers. As a result, operating profit was flat once again. Good progress was made in expanding Makita's footprint into neighbouring territories. The marine business continues to trade in a very subdued highly regulated market whilst the instrumentation business performed poorly again due to subdued demand from the mining sector.

Principal brands: Rutherford

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

Elvey Security Technologies – providing complete peace of mind

Elvey and Pentagon

Elvey produced a very pleasing increase in sales and operating profit this year. New products in access control under Elvey's own brand enabled it to take advantage of its nationwide footprint to increase sales through market share gains. Once again there was evidence of competitors retrenching staff and downsizing operations which indicates that the market is still subdued. There is a little more by way of new housing and commercial premises coming on-stream which supports Elvey's main business – replacement systems and upgrades. We rely on our main suppliers to keep up to date with technology and put a lot of pressure on them when we feel they are falling behind. Changing suppliers is a last resort but in a fast moving IP world we will do so if it is in our best interests. Pentagon, our systems design and supply business, had a good year picking up a number of new projects as it expanded its offering into fire detection, PA and building integration systems. Exports into Africa grew by 25%.

Principal brands: Elvey Security Technologies and Pentagon

DSC	Visonic	OPTEX	NetworX	CEM Systems		Vision	BOSCH	Genetec
Canadian manufacturer of intrusion detection products and holder of distribution rights on complimentary Tyco brands.	Israeli manufacturer of high end wireless intrusion products.	Japanese intrusion detection devices.	USA manufacturer of intrusion control panels and equipment.	Innovative and unique range of access control products manufactured in Ireland.	South African Manufacturer of access control systems.	Range of locally and internationally sourced security accessories and CCTV products.	Specialised German-designed IP and analogue CCTV products.	Canadian based open platform video management system that allows the use of most 3rd party camera devices.
Sole distributor since 1990	Distributor since 2012	Sole distributor since 1987	Sole distributor since 1987	Distributor since 2010	Distributor since 2011	Sole distributor since 1994	Distributor since 2005	Sole distributor since 2012

Principal brands: Deltec and SBS

VARTA	CSB	ROYAL	SBS SOLAR
Maintenance free lead-acid batteries from Germany.	Back-up power in UPS, telecoms, security etc.	Back-up power (UPS), engine start and solar systems.	Custom solar systems using the SBS Solar products.
Sole distributor since 2007	Sole distributor since 2000	Sole distributor since 2000	Sole distributor since 2009

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Global Communications

Global Communications had another excellent year. Although the specialised systems integration part of the business continues to take advantage of the migration from analogue to digital communication throughout Africa, 70% of sales are still of analogue equipment. Sales into Africa grew by 58%. A significant customer grouping is in the public sector, including municipalities, hospitals, police, and defence forces. This year, however, there was significant demand from private sector customers mainly in the mining industry. All these customers require sophisticated and reliable communication equipment for control and monitoring purposes.

Abes, Deltec and Specialised Battery Systems (SBS)

Abes Technoseal had a satisfactory year but supply difficulties by its Korean clutch supplier prevented it from doing better. Assembly of heavy duty clutches begins in 2014, opening up a new market for the business. Exports into Africa increased 43%. Deltec performed reasonably this year but is still very dependent on the automotive battery market and needs to make more progress in diversifying into underground mining applications. SBS, bought in October this year, has a significant presence in the standby battery market and will benefit from the substantial growth in solar power installations, all of which have battery systems as support.

Outlook for the consumable products segment

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

- Consumer spending;
- Light construction activity;
- Rand strength or weakness; and
- Analogue to digital migration of communication equipment.

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

Trading conditions in this segment are expected to be muted in 2014. The rapid growth in consumer spending in South Africa over the past decade has been fuelled by growth in public sector employment; above inflation wage increases across the economy; and the expansion of the social grant programme. Although this growth has largely come to an end (above inflation increases excepted) general consumer spending will remain high, supporting new car sales and housing construction, markets important to Hudaco.

Unless there is unexpected strengthening, the significant decline in the Rand exchange rate in 2013 will continue to filter through to pricing in 2014.

Neighbouring country outlook

Activity in neighbouring countries, particularly Mozambique, Zambia and southern Congo, is still strong, benefiting from the momentum of the resumption of investment, particularly in mining, in the first decade of this century. However, lower commodity prices and rumblings from governments about new, more stringent, indigenisation requirements for new investment cloud the future. In the case of Zambia, the government has intervened in wage negotiations with foreign owned businesses – on the side of workers – which surely must also frighten investors. Notwithstanding these uncertainties, significantly lower costs of doing business in neighbouring countries will support investment for some time to come. In 2012 we set ourselves an objective is to achieve R650 million sales into Africa by 2015. In 2012 it was R256 million and in 2013 it grew by 41% to R362 million.

Principal brands: Abes Technoseal

simrit / CORTECO	BOUGICORD	Valeo	AISIN	PHC Valeo
Oil seals from Germany.	Ignition cables from France.	Light duty clutch kits from France.	Clutch kits from Japan.	Clutch kits from Korea.
Preferred distributor since 1950	Exclusive distributor since 2007	Exclusive distributor since 2005	Sole distributor since 2007	Exclusive distributor since 1994

Principal brands: Global Communications

KENWOOD	JVC
PMR equipment and radio networks.	CCTV cameras and video systems.
Sole distributor for southern Africa since 1987	Distributor since 2009

Consumer-related products
Source of products – 2013

	(%)
Japan	19
China	18
USA	13
Germany	11
South Africa	9
European Union – other	9
Asia – other	8
Canada	5
Korea	5
Other	3

Black economic empowerment

During 2013, all businesses were again audited by independent verification bodies and all our businesses except DD Power achieved level 4 or better against the dti codes. Bearings International achieved level 2, meaning that its customers are able to claim 156% of their spend with us for the purpose of their own scorecard. Level 4 companies with value added supplier status contribute 125% of the spend value towards their customers' rating.

While it is difficult to quantify, we are of the opinion that our enhanced BEE standing has resulted in the following benefits:

- Business won;
- Customers retained; and
- Attracting potential acquisitions – the acquisitions we have made in the last three years were previously 100% owned by white shareholders. Our BEE status has become critical to our acquisitive success.

See pages 55 to 61 for further details of our transformation programme.

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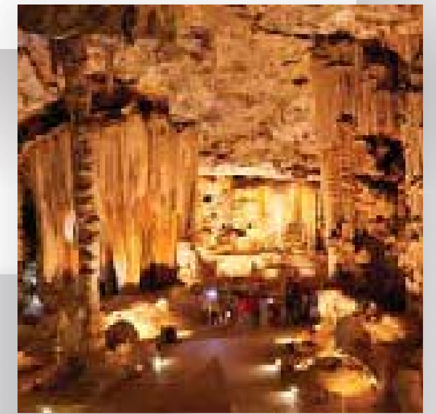
The Department of Trade and Industry published revised codes for B-BBEE in October 2013, giving companies a 12-month period to implement them. Our BEE ratings may drop initially, but if they do, we expect those of our competitors will do the same. We are developing a strategy to address the new requirements and ensure that we maximise our scores.

HUDACO BUSINESS UNITS B-BBEE SCORES

Business	B-BBEE Level	Value adding supplier	BEE procurement recognition
Bearings International	2	Yes	156%
Abes Technoseal, Ambro Sales, Astore Africa, Belting Supply Services, Bosworth, Deutz Dieselpower, Ernest Lowe, Filter and Hose Solutions, Global Communications, Varispeed, Midrand Special Steels, Pentagon, Rutherford, Elvey Security Technologies, Powermite	4	Yes	125%
Deltec, Dosco, Joseph Grieveson, Proof Engineering	4	No	100%
DD Power	5	Yes	100%

A FIRST – GLOBAL COMMUNICATIONS ENABLES COMMUNICATION THROUGHOUT THE CANGO CAVES

Global Communications, sole distributor for southern Africa of Kenwood, deployed a Kenwood Nexedge digital communication system in 2013 in the Cango Caves, Oudtshoorn, providing 100% underground coverage. "As the Cango Caves are the largest show caves of their kind in Africa, I would not be surprised if this is not only a first for Africa but a first for the world," said Steve Mouton, Cango Caves head guide, speaking at the official unveiling of the new system. Mouton added that all communications proved to be troublesome until the installation of the system. "This new digital system is the first to address our needs."



The system consists of seven antennae with cables and wiring. A battery pack allows for up to 12 hours' back-up power. Four "repeaters" were also installed, all linked via optic cable. The handsets function on a mini voting system whereby they search for the repeaters and lock onto them automatically. A cellphone or a switchboard modem can be added to the system making it possible to phone from a cell phone or a landline to one of the radios, or phone out from a radio. Additional software will also allow a person to speak to one of the guides from any laptop anywhere in the world. The Caves system can now be linked to the existing Oudtshoorn municipal emergency system, allowing immediate communication in case of emergency.

"We believe in long-term relationships," said Sean Mervitz, managing director of Global Communications. Kenwood's Nexedge two-way radio system is used in this project. "The product will evolve as you add features and adapt the system to suit your needs. Lazer-mapping of the caves, immediate data capturing or the immediate capturing and relaying of video from the depths of the Caves are all future possibilities."

Global Communications – reaching you wherever you are

Environmental impact

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

Opportunities to minimise our environmental and social impacts are therefore primarily by consideration of the environmental and social performance of our suppliers, through:

- The origin of raw material inputs and the recycled content of products;
- Pollution abatement in manufacturing processes;
- Environmental performance of product (such as in the case of our diesel engines);
- The energy intensity of manufacturing and transportation methods;
- Fair labour practices; and
- Social contributions.

We do not screen new businesses for their environmental and social performance, nor do we formally assess suppliers. However, all of our businesses are required to be certified against environmental, health and safety, quality and social management systems for internal risk management – respectively, the ISO 14001, OHSAS 18001, ISO 9001 and ISO 26000 standards. Where we acquire businesses without these ISO certifications, we put in place a programme to ensure they obtain the certifications within an appropriate timeframe.

As importers, we understand that our products generally travel long distances before they eventually reach our customers. This is a consequence of our business model and our geographic location at the southern tip of Africa. We aim to achieve economies of scale by scheduling orders efficiently and streamlining our logistics operations, thus minimising our carbon footprint. Bearings International, which has about one-third of all branches in the group, has established satellite distribution centres in Cape Town and Durban. This has meaningfully reduced its transportation footprint in that it sends one consolidated long-haul load per week to each of those centres whereas in the past it would send smaller loads to each separate branch in the area, several times per week.

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

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

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

In those few instances where we source unbranded products directly from manufacturers, we visit the factories concerned and informally assess whether there are any evident reasons, such as inappropriate labour practices or pollution, why we should not buy from that supplier.

Similarly, there is limited opportunity for us to develop post-consumer collection, recycling or recovery of our used products. Generally, our products are either serviceable (as in the case of diesel engines or power tools) or are disposed of post-use by our customers (as in the case of filters and hoses). Certain of our products contain hazardous components such as circuit boards, but the volumes are too small to formalise collection, recycling or disposal systems. Metal components from our power tools are sent for recycling, and contaminated water from our diesel engine workshops is treated prior to disposal.

In line with our approach to integrated reporting and increased transparency of disclosure, we recognise that it would be appropriate for us to collect more information about the environmental and social impacts of both our suppliers' and our businesses' activities. We also, however, need to be practical, recognising that our ability to influence change will be small. For 2013 our efforts were limited to information gathering. We have established that electricity consumption (excluding acquisitions) increased by 6% to 10.0 million KwH. Our gas usage decreased 6% to 25 000 GJ, while fuel consumption (petrol and diesel, excluding acquisitions) increased 9% to 3,3 million litres. In 2014 efforts will be focused on understanding the dynamics involved and a determination as to where and how interventions may be possible and productive.

In order to further contribute towards protecting our environment through the saving of paper and decreasing our carbon footprint, in line with Hudaco's commitment to sustainability, only a summarised report was printed and sent to shareholders. This full report has been made available on the website and on request in hard copy.

EMISSIONS AND FUEL EFFICIENCY – DEUTZ AG

Deutz Dieselpower – supply and service of consistent load diesel engines

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

– Deutz AG Integrated Report

Deutz Dieselpower – energy efficient diesel engines with low emissions

ENVIRONMENT-FRIENDLY DESIGN CONCEPTS – MAKITA CORPORATION

"Makita's concept for environment-friendly products began with an assessment of the recyclability of the product range in 1992, and environment-friendly design began in earnest with the launch of Makita's global environment charter in 1993. Today they improve the energy efficiency of products, reduce weight and extend product life, and use environment-friendly materials to develop, manufacture and sell products that are recyclable or safe for disposal.

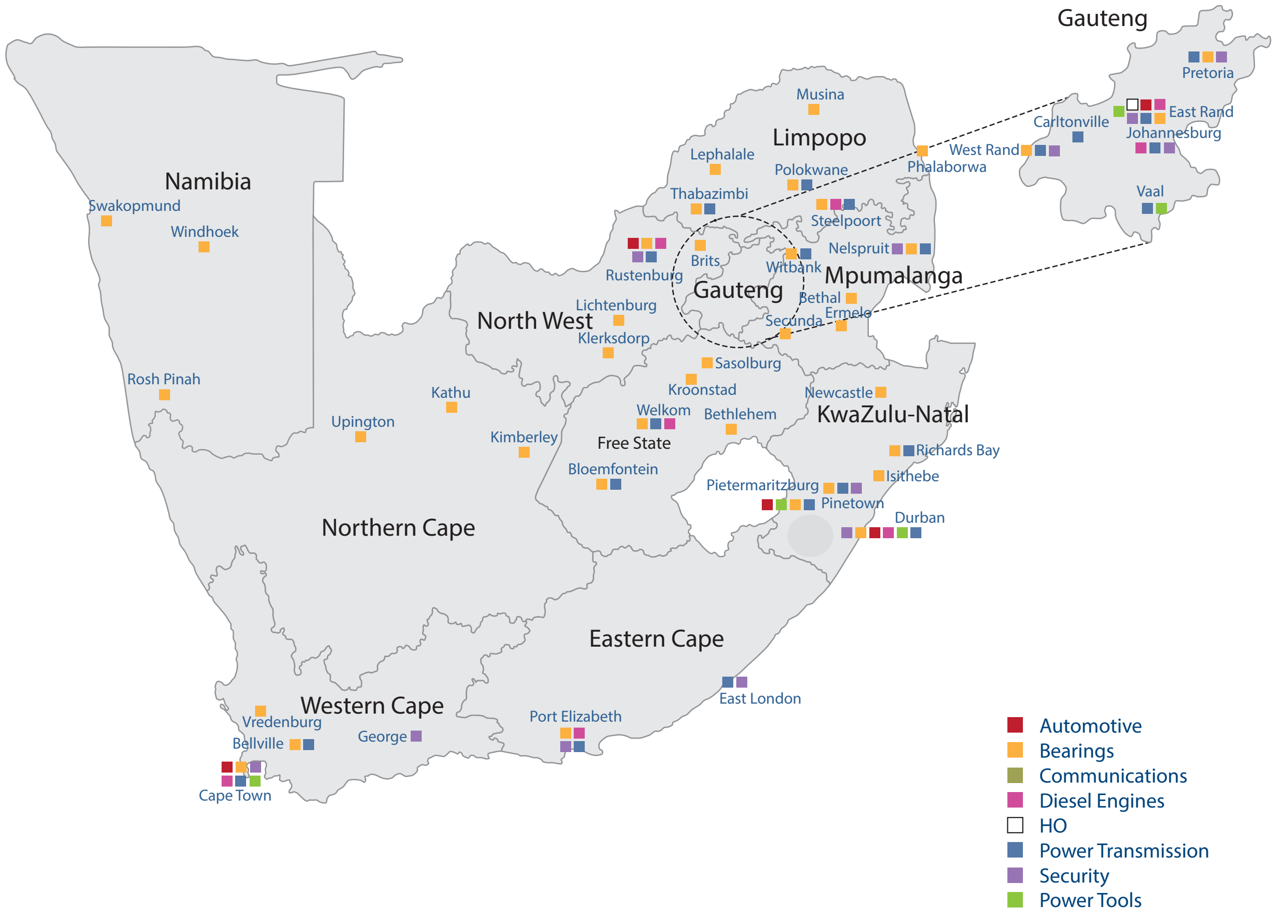
Makita will endeavour to fully understand environmental impacts we may cause and periodically review the environmental objectives and goals within the technically and economically possible range.

Makita will comply with applicable laws, regulations and standards concerning the environment. Moreover, Makita will take preventive action against environment pollution, based on their environmental principles."

For more on Makita's commitment to the environment see **www.makita.biz/environment**

Rutherford – distribution of environmentally friendly Makita power tools

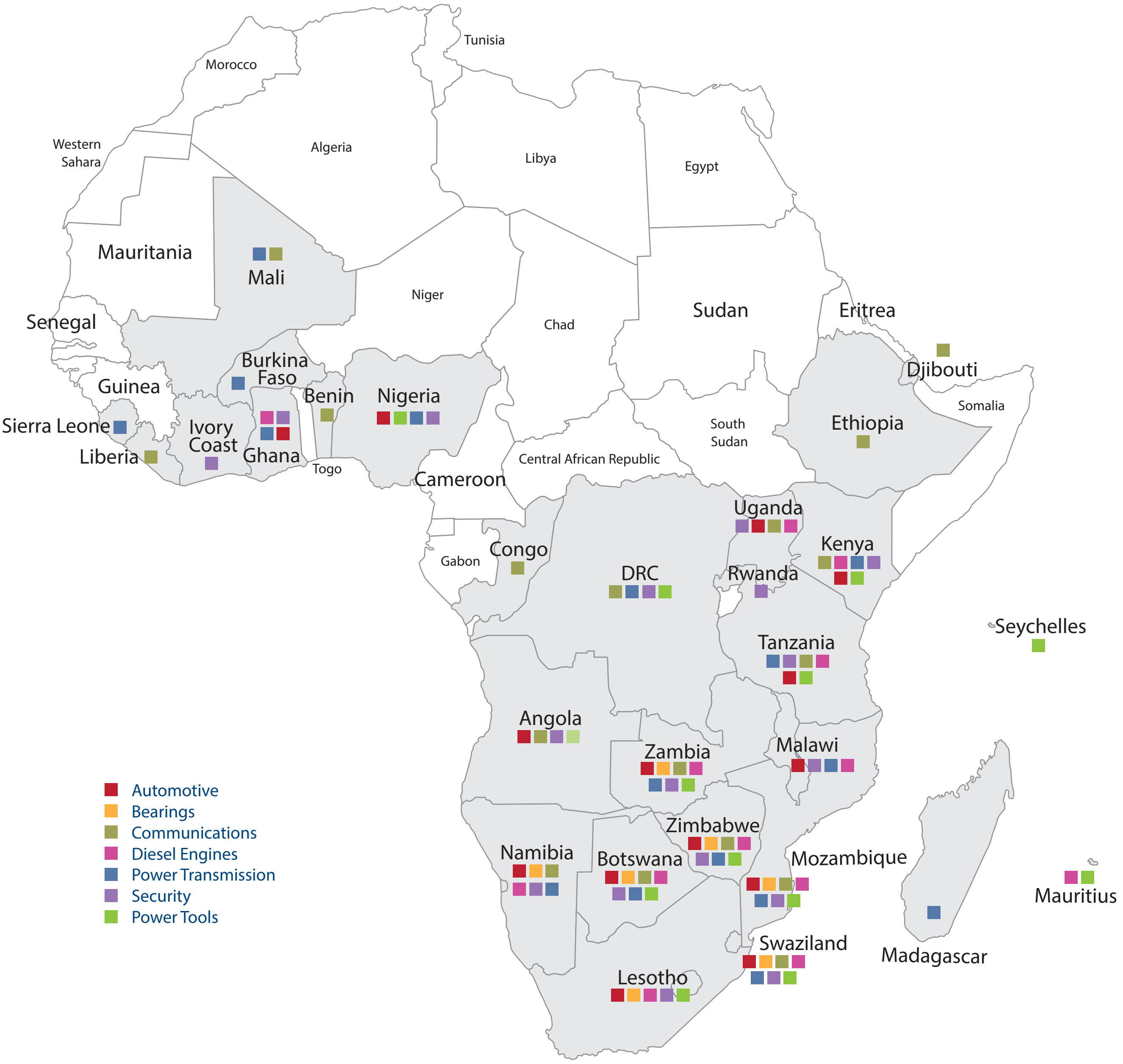
Location of businesses



	Number of employees 2013	2012		Number of employees 2013	2012
Gauteng	1 858	1 780	Mpumalanga	74	66
KwaZulu-Natal	229	212	Free State	65	63
Western Cape	239	198	Eastern Cape	54	57
North West	84	118	Namibia	17	12
Limpopo	68	72	Northern Cape		10

We also operate franchises in the Northern Cape, Mozambique, Zambia and Zimbabwe.

Business with Africa – 2013



South Africa as the portal to Africa

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

The following steps have been taken to achieve this strategy:

- A senior manager has been appointed to focus on developing business in Africa.
- We are initially targeting countries that are growing fast and have a relatively settled regulatory environment.
- The initial target zone is predominantly sub-equatorial countries strong in mining.
- We will consider setting up Hudaco branches in partnership with local entities in the identified locations.
- To ensure customer satisfaction and loyalty, the branches will carry sufficient stock and offer comprehensive technical support.

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

Employee **report**

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

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

Workforce profile

	2013	2012
Total workforce	2 742	2 652
Less: Non-permanent employees	54	64
Total permanent workforce	2 688	2 588
Racial and gender profile		
White males	717	704
White females	349	336
Black, Indian and Coloured males	1 258	1 232
Black, Indian and Coloured females	364	316
Occupational level profile		
Top and senior management	80	72
Middle management	370	344
Junior management	857	971
Non-management	1 381	1 201
Management profile by gender		
Females	279	311
Males	1 028	1 076
Management profile by race		
White	847	875
Black, Indian and Coloured	460	512
Non-management profile by gender		
Females	434	341
Males	947	860
Non-management profile by race		
White	219	165
Black, Indian and Coloured	1 162	1 036
Disability profile by gender		
Female	7	6
Male	6	3
Disability profile by race		
White	8	6
Black, Indian and Coloured	5	3

Decentralised management

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

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

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

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

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

Talent management

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

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

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

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

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

Transformation

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

As an important step in driving transformation in the group, Jonny Masinga was appointed group executive: transformation and human resources in 2011. Jonny has more than 13 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.

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. Five black people of which two are female chartered accountants joined the group in 2013 as senior managers.
- 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

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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 whom we believe have the qualities required for growth to executive level in due course. These people have been given expanded responsibilities and are being nurtured with a view to their being able to step into the breach as more senior managers reach retirement age. Most members of the senior management team have attended a Hudaco Executive Development Programme in recent years. During 2013, 51 people at the next levels identified as having potential to grow into higher management positions graduated from programmes presented by Wits Business School (see page 56).
- Technical expertise: Critical relationships in the field are with the technical and maintenance teams of our customers. They place the orders for the engineering consumables upon which the bulk of our turnover depends. We need a constant supply of new sales staff with the right technical skills to be able to adapt to and service our customers' changing needs. The demise of the apprenticeship system in local industry as a pipeline of skills into this area is regrettable. Although we are essentially a group of distribution businesses we run in-house apprenticeships where we can and technical traineeships where we can't.

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Under the auspices of the group transformation and human resources executive and with the assistance of the Wits Business School which is internationally recognised, the group conducted a future leaders development programme (FLDP) and a management development programme (CPMD) in 2013. The aim of these programmes is to provide a steady flow of leadership talent for the group, with particular emphasis on developing black leadership. We are already having successes in bringing potential black leaders through the ranks and preparing them for future middle and senior management positions.

The FLDP programme had 23 participants, of whom 19 were black. The CPMD had 28 participants, with 12 of them 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. 51 (2012: 59) staff members successfully completed their courses in 2013.

Deutz Dieselpower and Bauer run a SETA accredited apprenticeship programme in terms of which diesel fitters and turners are being trained. In 2013, 11 technical and semi-skilled employees participated in the programme.

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 a senior lecturer 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.

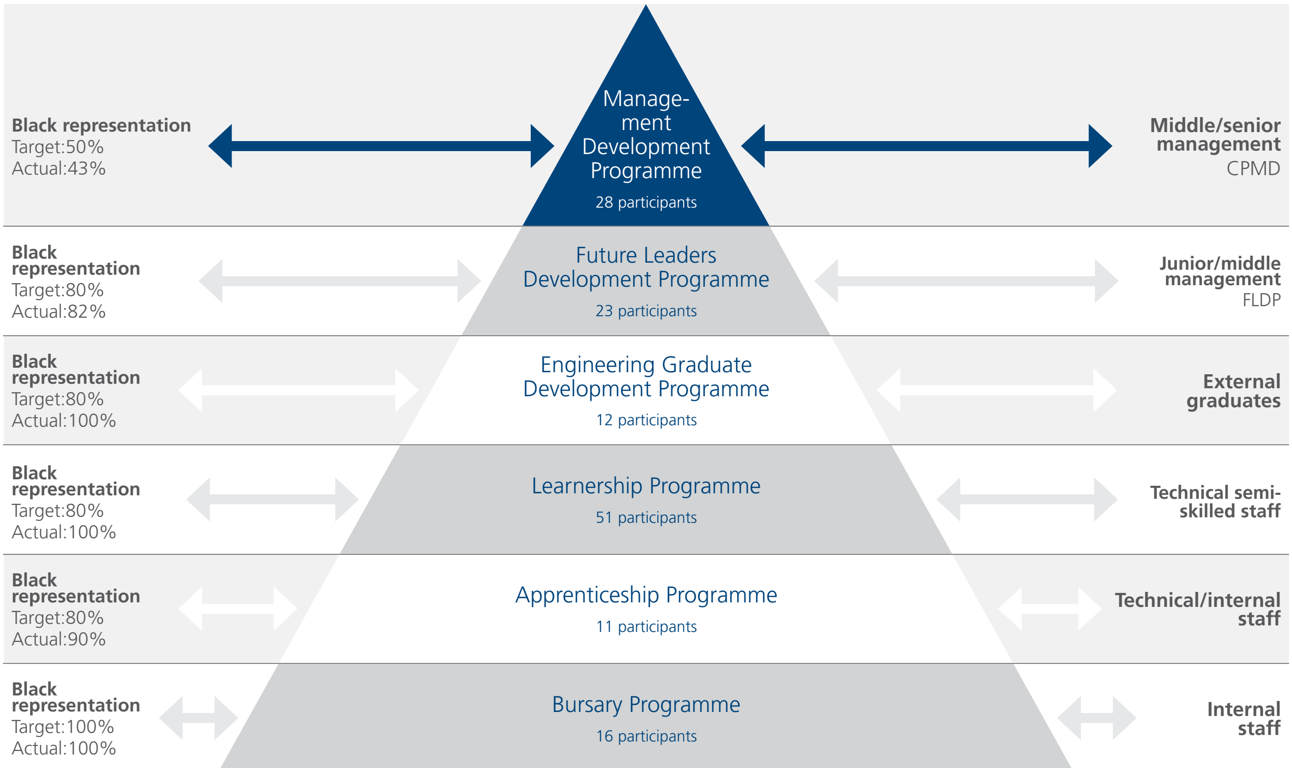
During the year under review, group expenditure on employee training amounted to approximately R7 million (2012: R5 million).

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 90% of the participants are black. In 2013 this programme had 12 participants, while in 2012 there were eight. Every effort is made to absorb the graduates into our employ as they qualify. We are delighted that thus far seven of our programme participants have qualified as engineers through the University of Johannesburg.

Below is a graphic depicting the overall training initiatives implemented by Hudaco during 2013 as well as the targets set. Employment equity and skills development committees exist at the group's various businesses to drive the various skills development programmes.

Growing our own talent 2013



Succession planning

A formal performance management and succession policy is in place. Five black people were appointed in various senior positions during 2013. The vacancies arose mainly 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.

Enterprise development and socio-economic development

In order to maximise points earned on the dti B-BBEE scorecard, Hudaco favours suppliers that have good BEE scorecard ratings and uses SMMEs (small, medium and micro enterprises) wherever possible, working closely with them to improve their service delivery.

Overall Hudaco spent R5 million (2012: R3,4 million) on various enterprise development initiatives during its 2013 financial year. Some of these included:

- Bosworth employed BEE companies to provide cleaning services and to do scrap removal;
- Belting Supply Services outsourced its splicing work to a BEE company;
- Deutz Dieselpower continued its system of early payments to level 4 B-BBEE contributors;
- Astore and Abes Technoseal subsidised canteen facilities, owned by black women at their respective premises; and
- Bearings International continued to offer business support ie assistance through training and mentorship arrangements with various SMMEs.

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

These funds are managed and distributed by Hudaco's head office on behalf of business units. In 2013, Hudaco donated approximately R2,4 million (2012: R1,3 million) to a variety of socio-economic development initiatives.

One thousand of Johannesburg's poorest families received desperately-needed food parcels as a result of a collaborative effort by Afrika Tikkun and Hudaco in honour of Mandela Day 2013. "The Big Bin Food Collection" project was a huge success with Hudaco employees contributing generously.

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 2013, 45 (2012: 35) students were granted bursaries, of whom 27 were women. For the 2014 academic year 60 students have been identified for bursaries, of whom 35 are women.

Corporate ethics and governance

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

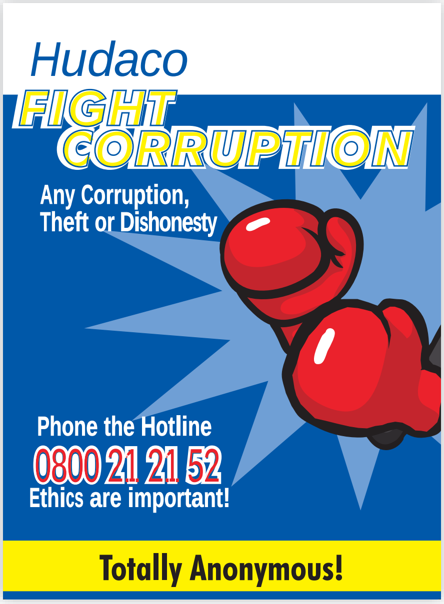
While compliance with all these requirements is compulsory, it is common for the seller of a business to be discouraged by too much corporate governance red tape. As former owners of private businesses themselves, many members of the executive of Hudaco are sensitive to these concerns. We therefore try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

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

To facilitate enforcement of our Code of Ethics, Hudaco has established a fraud and ethics hotline, which is managed by an external service provider. This hotline enables employees to communicate sensitive information securely, confidentially and anonymously if they suspect that a criminal act or any contravention of the code has been committed by another employee. Some of our suppliers run compliance programmes which are extended to us – for example, Deutz AG's global policies on anti-corruption, money laundering, emissions, labour safety and compliance with 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. After making regular enquiries, the board is not aware of any significant non-compliance with legislation, including anti-competitive behaviour, during the year.

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

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Organised labour and employee rights

16% of our total labour force is covered by collective bargaining agreements and belong to either the National Union of Metalworkers of South Africa (NUMSA) or the Transport and Allied Workers Union (TAWU).

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

Copies of the Basic Conditions of Employment Act, Skills Development Act and the Employment Equity Act are displayed in all workplaces. Formal grievance procedures are in place through which employees can raise issues. There were no grievances relating to human rights during the year. There were 69 dismissals for misconduct.

While certain countries from which Hudaco sources products have been identified as posing a potential risk to human rights, none of our businesses has specifically been identified as posing a risk for incidents of forced or compulsory labour, child labour or for undermining the right to exercise freedom of association and collective bargaining.

Remuneration

An important aspect of our management philosophy is to establish in our remuneration structures a clear link between performance of the group (delivering value to shareholders) and the performance of the underlying businesses (delivering value to customers). To achieve this, executive remuneration at the group level, as well as senior management within each business, is structured on three levels:

- Guaranteed pay and benefits: This level of remuneration applies to all employees within the group. In addition, employees are required to join a group negotiated medical aid scheme (unless they are below a certain earnings threshold) and a pension or provident fund if they are not on an industry fund.
- Formula-based short-term incentives: This level of remuneration applies to the top 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. In 2013 a portion of the chief executive's short term incentives was based on the achievement of non-financial key objectives. This is being introduced for other executives from 2014.
- Share appreciation rights scheme: Previously, this level of remuneration applied only to the top 60 or so senior managers in the group. Since 2012 the list of participants has been expanded to include 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. There are currently 142 participants on the scheme.

Further information on executive remuneration is set out in the report of the remuneration and nomination committee, commencing on page 29.

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Retirement funds

The group's defined contribution pension and provident fund schemes for all employees who do not belong to an industry fund (ie unionised staff) were transferred from the separate Hudaco funds to the Evergreen umbrella funds administered by Old Mutual during the first half of 2013. This move resulted in administrative costs being lower, leaving more funds to be invested for retirement and greater expertise is now brought to bear on corporate governance aspects. No risk benefits or flexibility were sacrificed on account of the transfer.

Health and safety

Health and safety is important in that we need to protect those assets, ie our people, in whom we have invested so heavily and upon whom we depend for our success. More importantly, it is an integral part of responsible employment practice.

Our sales and managerial teams spend many hours each day on the road and in factories, mines, workshops etc. and hence place themselves in situations where their health and, most importantly, their safety, requires constant attention. In accordance with the OHS Act, each Hudaco business has a health and safety committee, which meets once a month to discuss OHS issues. These committees comprise health and safety representatives, people trained in first aid and fire team members. Comprehensive safety training is conducted alongside measures such as fire drills and evacuation procedures, buddy support systems, driver training, regular servicing and inspection of machinery, hazard reduction and safety awareness signage.

The executive committee has approved a Life-threatening Diseases Policy, which has been adopted by all our businesses. From a benefit point of view in the past, the policy regarded HIV/Aids in the same light as other life-threatening diseases. However, in 2013 a separate HIV/Aids policy was approved, the purpose of which is to:

- ensure a working environment where employees living with HIV/Aids are protected from unfair discrimination and stigmatisation and are treated with dignity, compassion and respect;
- ensure stability and productivity in the workplace;
- encourage disclosure by HIV/Aids employees without fear of victimisation or prejudice;
- empower employees to prevent the spread of HIV and Aids through training and education.

Our health and safety record for 2013 shows no fatalities, 42 disabling injuries (2012: 45) and a disabling injury frequency rate (DIFR) per 200 000 hours worked of 1,47 (2012: 1,7). The injury rate remains low compared to industry averages.

SHEQ systems

All business units are required to be certified against the applicable standards for environmental, health and safety, quality and social risk management, ie ISO 14001, OHSAS 18001, ISO 9001 and ISO 26000. Most of our businesses have already achieved certification against at least three of the standards. ISO 26000 (a social responsibility standard) is relatively new to the business arena, and will be rolled out in due course. No incidences of non-compliance, prosecution or fines relating to environmental performance or health and safety were reported during 2013.

Wellness

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

As a condition of employment, all permanent employees earning more than R9 000 per month are required to join the preferred medical aid scheme of the company unless proof can be supplied of membership of another scheme as a dependant. Employees earning less than R9 000 per month can also join the medical scheme and similarly qualify for the subsidy. The current preferred medical aid scheme is Discovery Health.

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

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

There were, on average, 950 employees on the medical scheme during the year to November 2013, Contributions totalled R37 million, of which R13 million was covered by the Hudaco subsidy, which was limited to 50% of Classic Priority. Gap insurance cost a further R1 million, of which Hudaco paid half.

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

- Health risk assessment: height, weight, blood pressure, cholesterol, glucose and BMI
- HIV voluntary counselling and testing
- Eye screening by a mobile optometrist
- Questionnaire on lifestyle habits
- 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, 736 (2012: 766) Hudaco employees of whom 525 (2012: 499) are not on medical aid, took advantage of the opportunity and had a health risk assessment, while 363 (2012: 389) employees checked their HIV status. Eleven (2012: 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 identified consistently 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. The relevant employees have been given the appropriate advice to address their conditions.

Supporting the Afrika Tikkun Mandela Day food drive

Wellness Day at Elvey Security Technologies

20th September 2013

"We, the Head Office Employees of Bearings International hereby pledge to be self-motivated, open and honest in all our dealings in order to create an environment where we all work together to achieve common goals."

Dodo Ngoza: FLDP Graduate

"I am so happy to have been chosen to participate in the Hudaco Future Leaders Development Programme offered at Wits Business School. I am today what I wanted to be because Hudaco group made it possible for me. I was also encouraged by the late President Nelson Mandela when he said: "Education is the most powerful weapon which you can use to change the world." President Mandela also emphasised that a person is never too old to educate him/herself and as a result I did not see age as a limitation for what I wanted to achieve. I must applaud Hudaco for taking a stand and encouraging their workers to develop themselves. I am proud to be an employee of Hudaco, which gave me a chance regardless of the physical challenge I have. They did not discriminate against me, instead they encouraged me to upskill myself. I am a leader today with qualifications. Thank you very much for giving me the chance. May God bless you."

Lesego Mokate (Dip. Agriculture: Crop Science): Hudaco bursary student

"As a beneficiary of the Hudaco bursary programme, I would like to express my sincere gratitude for the tremendous support that you have provided me throughout the years.

Being one of the lucky few to have received a bursary brought me happiness and assurance, knowing that my relocation from high school to university would be a lot easier and much more simple.

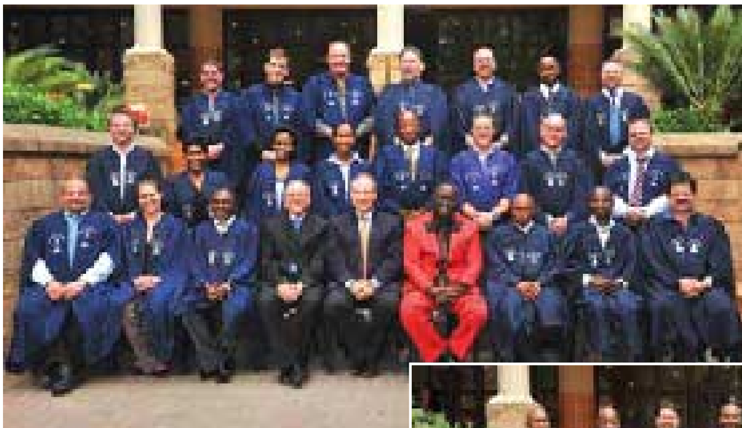
I studied Agriculture: Crop Science at the Tshwane University of Technology and I am proud to say I have successfully completed my diploma through the help and support of the Hudaco bursary programme.

May God give you more strength to help other people to reach for their dreams. Thank you."

Mirriam Chuma (BSc): Hudaco bursary student

"Hudaco helped me realise my dreams. I am very proud to say that, through the bursary given to me by Hudaco, I have successfully completed my BSc degree in Human Physiology and Psychology at the University of Johannesburg. I would like to thank Hudaco and particularly Mr Jack Edery, the CEO of Elvey Security Technologies, who initiated the move for me to obtain the bursary and my father Lotiking Chuma, an employee at Elvey, who gave me wonderful support during difficult times. My achievement is as a result of hard work and determination. To my friends, the other Hudaco bursary recipients, I encourage you to work hard and stay focused on your studies. Nothing is impossible, you can also achieve what you want through hard work and sheer determination."

CPMD and FLDP graduation



2013 Hudaco CPMD (above) and FLDP (right) graduates at Wits Business School

Specialised Battery Systems – stand by and solar battery solutions

Deltec – lead-acid batteries for the automotive aftermarket

Joseph Grieveson – ferrous and non-ferrous castings for any application

Rutherford Marine – keeping the boating community moving

Audited annual **financial statements**

Audit and **risk management committee's report**

The audit and risk management committee has pleasure in submitting this report, as required in terms of the South African Companies Act.

The audit and risk management committee consists of three directors who act independently. During the year under review, three meetings were held. At these meetings the members fulfilled their functions as prescribed by the Companies Act and the JSE Listings Requirements. Details of the functions of the audit and risk management committee are contained in the corporate governance section on pages 31 to 33.

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 2013 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

30 January 2014

Certificate by the **group secretary**

In accordance with the provisions of section 88(2)(e) of the South African Companies Act, I certify that, to the best of my knowledge and belief, the company has filed for the financial year ended 30 November 2013 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

30 January 2014

Directors' **report**

Reporting period

The directors have pleasure in presenting their report for the company's financial year ended 30 November 2013. The consolidated financial statements for the year ended 30 November 2013 were authorised for issue in accordance with a resolution of the directors on 30 January 2014. Hudaco Industries Limited is a public company incorporated and domiciled in South Africa whose shares are publicly traded. The principal activities of the group are described below:

Nature of business

Hudaco is a South African group that imports and distributes branded industrial and electrical 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 2013 were R294 million (2012: R340 million), representing basic earnings per share of 930 cents (2012: 1 074 cents). Headline earnings per share were 928 cents (2012: 1 071 cents) and comparable earnings per share were 983 cents (2012: 947 cents).

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

Dividends

R million	2013	2012
Dividend number 52 of 310 cents per share declared on 31 January 2013	106	106
The record date was 8 March 2013 and the dividend was paid on 11 March 2013		
Dividend number 53 of 155 cents per share declared on 27 June 2013	53	53
The record date was 16 August 2013 and the dividend was paid on 19 August 2013		

On 30 January 2014 the directors declared dividend number 54 of 310 cents per share, being the final dividend in respect of the year ended 30 November 2013. The record date will be Friday, 7 March 2014 and the dividend will be paid on Monday, 10 March 2014.

Subsidiaries

Particulars of the principal subsidiaries of the company are set out on page 103 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 Donsteel

With effect from 1 March 2014, Hudaco acquired the trading assets and liabilities of Donsteel as a bolt-on operation to Ambro Sales, a distributor of specialised steels.

The purchase consideration was R6,2 million, fully settled in cash on 14 June 2013.

Acquisition of the trading assets and liabilities of Three-D Agencies and Shamrock Plastics (Three-D Agencies)

With effect from 1 May 2013, Hudaco acquired the trading assets and liabilities of Three-D Agencies, a distributor of specialised cable accessories.

The purchase consideration is subject to a maximum of R28,5 million and includes an initial amount of R21,5 million paid in cash on 8 May 2013. 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 in 2014, 2015 and 2016.

Acquisition of 100% of the shares of Dosco Precision Hydraulics, Gear Pump Manufacturing, Joseph Grieveson and Engineering Technology Services

With effect from 1 December 2013, Hudaco acquired 100% of the shares of Dosco Precision Hydraulics Pty Ltd, Gear Pump Manufacturing Pty Ltd, Joseph Grieveson Pty Ltd and Engineering Technology Services Pty Ltd, which together have two main areas of business:

- machining, repair and sale of hydraulic pumps for the local and export market; and
- production of ferrous and non-ferrous castings for a diversity of industries in South Africa.

The purchase consideration, subject to a maximum of R154,2 million, is to be settled as follows: an initial amount of R52,2 million was paid in cash. The balance is to be settled in cash by 31 May 2014 and is dependent on the market price of Hudaco Industries Limited shares on the JSE.

Acquisition of the trading assets and liabilities of Specialised Battery Systems (SBS)

With effect from 1 October 2013, Hudaco acquired the trading assets and liabilities of SBS, a distributor of imported batteries used mainly in the stand by and solar markets.

The purchase consideration is subject to a maximum of R75 million and includes an initial amount of R28,3 million paid in cash on 5 December 2013. 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 in 2014, 2015 and 2016.

BEE financing arrangements restructured

The financing arrangements pertaining to the group's BEE structure were restructured with effect from 28 February 2013. Cadiz redeemed the preference share investment of R2 181 million and as a result Morgan Stanley exercised its option to put to the group the debenture issued by Hudaco Trading. Consequently, the BEE funding arrangements that were intended to be financed externally until August 2017 have been financed internally by the Hudaco group since 28 February 2013.

As a result of the restructuring:

- the group statement of financial position no longer reflects a preference share investment of R2 181 million or a subordinated debenture liability of R2 181 million;
- the group statement of comprehensive income no longer reflects preference dividends received of R201 million per annum or debenture interest paid of R234 million per annum;
- basic earnings and headline earnings are negatively affected by approximately R33 million or 103 cents per share per annum; and
- for the financial year ended 30 November 2013, the effect of the abovementioned items on basic and headline earnings per share is 77 cents; plus there has been a further charge of 17 cents because of a once off Securities Transfer Tax payment of R5,5 million on the redemption.

The BEE shareholders continue to hold their shares in Hudaco Trading and the BEE credentials of all entities in the Hudaco group remain intact.

Taxation

The group is facing a challenge from SARS in relation to the funding arrangements for the BEE structure. The maximum exposure for tax, interest and penalties is considered to be R1,7 billion but the prospects of having to pay such an amount are considered remote. For more information on this matter, refer to page 24 of the integrated report.

Resolutions

All the operational companies in the Hudaco group have passed special resolutions approving the provision of financial assistance to related and inter-related companies as well as the adopting of a new memorandum of incorporation.

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

Authority to buy back shares

At the forthcoming annual general meeting in March 2014, shareholders will be asked to provide the directors with authority to purchase up to a maximum of 5% of Hudaco's issued shares. If approved, this authority will be valid until the following year's annual general meeting and subject to the Listings Requirements of the JSE Limited, allowing the Hudaco group to purchase its own shares up to a maximum of 5% of the issued shares, at a price not greater than 10% above the preceding five-day weighted average.

During the year, Hudaco continued to hold indirectly, through a wholly-owned subsidiary, a total of 2 507 828 Hudaco shares, representing approximately 7,3% of its issued capital, by way of treasury 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 2013 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 18 and 19 of the integrated report.

Mr PC Baloyi joined the Hudaco board as independent non-executive director on 27 July 2013 and Mrs DD Mokgatle resigned with effect from 25 October 2013.

In terms of the company's Memorandum of Incorporation, Mr PC Baloyi is required to retire at the forthcoming annual general meeting and Messrs SJ Connelly and RT Vice retire by rotation.

All of these directors are available, eligible and recommended for election and re-election. Their profiles appear on pages 18 and 19.

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 114.

Borrowing powers

The borrowing powers of the Hudaco group are unlimited. At 30 November 2013, unutilised borrowing facilities amounted to R63 million (2012: R247 million).

Events after reporting date

On 12 December 2013, Hudaco Trading Pty Ltd acquired 100% of the shares of Dosco Precision Hydraulics Pty Ltd, Gear Pump Manufacturing Pty Ltd, Joseph Grieveson Pty Ltd and Engineering Technology Services Pty Ltd from a company controlled by Graham Dunford, a director of Hudaco. Details are set out in note 26.

In December 2013 the group entered into a three year, R300 million revolving credit facility arrangement with ABSA Bank.

Statement of directors' responsibility

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

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

The external auditors are responsible for carrying out an independent examination of the financial statements in accordance with International Standards on Auditing and reporting their findings thereon. The auditors' report is set out on page 69.

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 2013, which appear on pages 64 to 103, were approved by the board on 30 January 2014 and are signed on its behalf by:

RT Vice
Chairman

SJ Connelly
Chief executive

30 January 2014

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 70 to 103, which comprise the consolidated and separate statements of financial position as at 30 November 2013, 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 2013, 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 2013, 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

30 January 2014

42 Wierda Road West
Wierda Valley, 2196
Johannesburg

Group statement of **comprehensive income**

for the year ended 30 November 2013

	Notes	2013 R000	2012 R000
Turnover		3 942 216	3 492 369
Ongoing operations		3 558 620	3 360 628
Operations acquired in 2012 and 2013		383 596	131 741
Cost of sales		2 462 903	2 136 980
Gross profit		1 479 313	1 355 389
Operating expenses	5	1 010 098	918 128
Operating profit	5	469 215	437 261
Ongoing operations		428 938	418 547
Operations acquired in 2012 and 2013		40 277	18 714
Reversal of impairment on property	10	160	840
Adjustment to fair value of amounts due to vendors of businesses acquired		(23 410)	7 562
Profit before interest		445 965	445 663
Dividends received on investment in preference shares		49 550	201 505
Finance costs	6	(70 346)	(249 691)
Profit before taxation		425 169	397 477
Taxation	8	120 169	46 869
Profit for the year		305 000	350 608
Other comprehensive income			
Movement on fair value of cash flow hedges		(459)	2 489
Total comprehensive income for the year		304 541	353 097
Profit attributable to:			
– shareholders of the group		294 235	339 804
– non-controlling shareholders		10 765	10 804
		305 000	350 608
Total comprehensive income attributable to:			
– shareholders of the group		293 742	342 146
– non-controlling shareholders		10 799	10 951
		304 541	353 097
Headline earnings per share (cents)	9	928	1 071
Diluted headline earnings per share (cents)	9	917	1 055
Basic earnings per share (cents)	9	930	1 074
Diluted basic earnings per share (cents)	9	918	1 058
Comparable earnings per share (cents)	9	983	947
Diluted comparable earnings per share (cents)	9	970	933

Group statement of **financial position**

at 30 November 2013

	Notes	2013 R000	2012 R000
Assets			
Non-current assets		922 119	3 040 131
Property, plant and equipment	10	214 295	205 466
Investment in preference shares	11		2 180 966
Goodwill	12	618 684	593 761
Intangible assets	13	39 108	49 397
Taxation	23.3	40 000	
Deferred taxation	14	10 032	10 541
Current assets		1 902 356	1 678 448
Inventories	15	1 104 418	918 668
Trade and other receivables	16	780 627	683 878
Taxation		1 791	
Bank deposits and balances	22.6	15 520	75 902
Total assets		2 824 475	4 718 579
Equity and liabilities			
Equity		1 834 871	1 695 872
Interest of shareholders of the group		1 815 647	1 669 811
Non-controlling interest		19 224	26 061
Non-current liabilities		29 955	2 243 849
Subordinated debenture	18.1		2 180 966
Amounts due to vendors of businesses acquired	18.2	29 955	62 883
Current liabilities		959 649	778 858
Trade and other payables	19	672 663	591 863
Bank overdraft	22.6	219 660	92 521
Amounts due to vendors of businesses acquired	18.2	62 599	88 202
Taxation		4 727	6 272
Total equity and liabilities		2 824 475	4 718 579

Group statement of **cash flows**

for the year ended 30 November 2013

	Notes	2013 R000	2012 R000
Cash flow from operating activities			
Operating profit		469 215	437 261
Adjusted for:			
Decrease in equity compensation reserve		(753)	(19 132)
Depreciation less profit on disposal of property, plant and equipment		28 043	24 325
Amortisation of intangible assets		16 475	16 128
Increase in working capital	22.1	(138 331)	(121 389)
Cash generated from operations		374 649	337 193
Fair value adjustment of cash flow hedges		(459)	2 489
Taxation paid	22.2	(168 613)	(53 984)
Net cash from operating activities		205 577	285 698
Cash flow from investing activities			
Additions to property, plant and equipment	10	(37 894)	(42 913)
Proceeds from disposal of property, plant and equipment		5 686	3 988
Acquisition of businesses	20	(41 857)	(105 745)
Acquisition of non-controlling interest		(836)	
Payments to vendors of businesses acquired	22.3	(137 990)	(123 604)
Proceeds from disposal of preference shares		2 180 966	
Dividends and interest received		49 550	201 505
Net cash from investing activities		2 017 625	(66 769)
Cash flow from financing activities			
Repurchase of subordinated debenture		(2 180 966)	
Decrease in finance leases			(2 793)
Finance costs paid	22.4	(65 804)	(238 489)
Dividends paid	22.5	(163 953)	(162 847)
Net cash from financing activities		(2 410 723)	(404 129)
Net decrease in cash and cash equivalents		(187 521)	(185 200)
Cash and cash equivalents at beginning of the year		(16 619)	168 581
Cash and cash equivalents at end of the year	22.6	(204 140)	(16 619)

Group statement of **changes in equity**

for the year ended 30 November 2013

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 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
Movement 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
Balance at 30 November 2012	3 415	51 533	67 027	1 566 542	1 688 517	26 061	1 714 578
Comprehensive income for the year			(541)	294 283	293 742	10 799	304 541
Movement in equity compensation reserve			3 578	(4 331)	(753)		(753)
Non-controlling interest acquired						(836)	(836)
Dividends (note 21)				(147 153)	(147 153)	(16 800)	(163 953)
Balance at 30 November 2013	3 415	51 533	70 064	1 709 341	1 834 353	19 224	1 853 577
Less: Shares held by subsidiary company	(251)		(41)	(18 414)	(18 706)		(18 706)
Net balance at 30 November 2013	3 164	51 533	70 023	1 690 927	1 815 647	19 224	1 834 871

Notes to the **group financial statements**

for the year ended 30 November 2013

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 South African Institute of Chartered Accountants Financial Reporting Guides as issued by the Accounting Practices Board and the requirements of the South African Companies Act and the JSE Listings Requirements. These policies have been consistently applied.

1.2 Basis of consolidation

The group financial statements incorporate all the assets, liabilities and results of the company and all entities that are controlled by the company. In all cases results are reported from the effective date of acquisition or to the effective date of disposal using the 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

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 (ie gain on a bargain purchase) is recognised in profit or loss immediately.

Contingent liabilities are only included in the identifiable assets and liabilities of the acquiree where there is a present obligation at the acquisition date.

Any contingent consideration to be transferred by the group is recognised at fair value at the acquisition date, and subsequently carried at amortised cost. Subsequent changes to the fair value of the contingent consideration, which is deemed to be a liability, is recognised in accordance with IAS 39 in profit or loss.

1.4 Revenue

Revenue is recognised when the amount of revenue can be measured reliably, collection is probable, the costs incurred or to be incurred can be measured reliably, and when the criteria for each of the group's different activities have been met. The specific recognition criteria for these activities are described below:

Turnover

Turnover represents the invoiced value of goods and services sold outside the group less both settlement discounts and VAT. Turnover is recognised at the fair value of the consideration received or receivable when the risks and rewards pass to the customer. Significant risks and rewards are generally considered to 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 and middle 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.

1.15 Goodwill

Goodwill is initially measured and carried at cost. It represents the excess of the purchase consideration over the fair value of the group's share of the net fair value of identifiable assets, liabilities and contingent liabilities of the acquired entity at the date of acquisition. Goodwill is reviewed for impairment at least annually. Any impairment is immediately recognised as an expense and not reversed in future years.

1.16 Intangible assets

An intangible asset is an identifiable non-monetary asset without physical substance and is initially recognised at fair value if acquired as part of a business combination and at cost if acquired separately or internally generated.

If assessed as having a finite life, it is amortised over its useful life using the straight-line basis and tested for impairment if there is an indication that it may be impaired. Both their residual values and useful lives (note 13) are re-assessed annually.

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

1.17 Deferred tax

A deferred tax liability is recognised for all 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, ie forward exchange contracts in respect of foreign trade liabilities.
- Cash flow hedges, which hedge exposure to variability in future cash flows attributable to forecasted transactions, 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, automotive and battery 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. These operating segments are monitored by the individuals as set out on pages 20 and 21.

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 period under review, this primarily applies to the group's headquarters.

2. Use of estimates, judgements and assumptions made in the preparation of the financial statements

In preparing the financial statements, management is required to make estimates and assumptions that affect reported income, expenses, assets, liabilities and disclosure of financial instruments and contingent liabilities.

Use of available information and the application of judgement are inherent in the formation of estimates.

Significant estimates and judgements are made in the following areas:

Property, plant and equipment – useful lives and residual values – note 10

Impairment of goodwill – note 12

Fair value, impairment, useful lives and residual values of intangible assets – note 13

Deferred taxation – the extent to which it is probable that taxable profit will be available against which deductible temporary differences can be utilised – note 14

Inventories – allowance for slow-moving and obsolete inventory – note 15

Trade receivables – allowance for doubtful debts – note 16

Fair value of share-based payments – note 17.5

Fair value of vendor liabilities – amount and timing of contingent consideration – note 18.2

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 and only adopted the Amendments to IAS 1 Presentation of Financial Statements (IAS 1 Amendments). This had no effect on the measurement or recognition of any item but introduced additional disclosure.

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

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

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.

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.

	2013 R000	2012 R000

5. Operating profit

	2013 R000	2012 R000
Operating expenses comprise:		
Staff costs	719 134	653 555
Property rentals under operating leases	76 275	58 751
Depreciation	28 589	24 953
Amortisation	16 475	16 128
Profit on disposal of property, plant and equipment	(546)	(628)
Acquisition costs – new businesses	800	1 764
Other expenses	252 251	234 237
Less: Allocated to cost of sales	(82 880)	(70 632)
	1 010 098	918 128
Included in other expenses and cost of sales are:		
Gain on translation of foreign currency monetary items	87	35
Cost of fair value hedges	16 537	15 159

6. Finance costs

	2013 R000	2012 R000
Interest paid on subordinated debenture	57 579	234 156
Interest on amounts due to bankers and other payables	8 225	4 333
Interest imputed on amounts due to vendors of businesses acquired	4 542	11 202
	70 346	249 691

7. Auditors' remuneration

	2013 R000	2012 R000
Audit fees – current year	5 478	5 094
Fees for other services	301	1 117
	5 779	6 211

	2013	2012
	R000	R000
8. Taxation		
8.1 Taxation comprises		
South African normal taxation		
Current year	117 033	48 108
Prior years under provision	86	3
Deferred taxation		
Current year	(1 908)	(3 753)
Prior years (over) under provision	(123)	378
Secondary tax on companies		1 579
Foreign normal taxation	(404)	554
Securities transfer tax	5 452	
Capital gains tax	33	
Total taxation	120 169	46 869
8.2 Reconciliation of rate of taxation	%	%
Normal rate	28,0	28,0
Exempt income	(3,3)	(17,3)
Disallowable expenditure	2,3	0,6
Secondary tax on companies		0,4
Securities transfer tax	1,3	
Prior year under provision		0,1
Effective rate of taxation	28,3	11,8

	2013	2012
	R000	R000
9. Comparable earnings, headline earnings and basic earnings per share		
Calculation of headline earnings		
Profit attributable to shareholders of the group	294 235	339 804
Adjusted for:		
Reversal of impairment and profit on disposal of property, plant and equipment	(706)	(1 468)
Tax effect	197	411
Non-controlling interest	71	161
Headline earnings	293 797	338 908
Calculation of comparable earnings		
Headline earnings as per above	293 797	338 908
Adjusted for:		
Preference dividend received	(49 550)	(201 505)
Interest on debenture	57 579	234 156
Tax effect	(16 121)	(65 563)
STT on redemption of preference shares	5 452	
Fair value adjustments on amounts due to vendors	23 410	(7 562)
Non-controlling interest	(3 512)	1 134
Comparable earnings	311 055	299 568

The calculation of comparable, headline and basic earnings per share is based on comparable earnings, headline earnings (both set out above) and earnings attributable to shareholders of the group (as set out in the statement of comprehensive income), divided by the weighted average of 31 645 703 (2012: 31 645 703) shares in issue during the year, taking account of shares held by a subsidiary.

The calculation of diluted earnings per share is based on 32 053 606 (2012: 32 123 607) shares, being the weighted average number of shares in issue of 31 645 703 plus 407 903 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 R103,65 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	2013 Total
Cost						
Opening balance	79 545	79 543	68 283	76 456	35 537	339 364
Acquisition of businesses		1 534	765	6 284	415	8 998
Additions	338	8 427	11 660	13 217	4 252	37 894
Disposals	(2 145)	(2 517)	(1 169)	(10 569)	(471)	(16 871)
Closing balance	77 738	86 987	79 539	85 388	39 733	369 385
Accumulated depreciation						
Opening balance	5 860	35 119	38 873	34 687	19 199	133 738
Acquisition of businesses		736	501	3 066	191	4 494
Depreciation for the year	1 535	6 091	7 178	10 038	3 747	28 589
Disposals	(1 107)	(1 674)	(1 087)	(7 504)	(359)	(11 731)
Closing balance	6 288	40 272	45 465	40 287	22 778	155 090
Accumulated impairment						
Opening balance	160					160
Reversal during the year	(160)					(160)
Closing balance						
Net book value	71 450	46 715	34 074	45 101	16 955	214 295

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
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.

	2013	2012
	R000	R000
11. Investment in preference shares		
Unlisted securities		
Business Venture Investments No 1095 Pty Ltd – 100 000 redeemable non-cumulative preference shares		2 180 966
Directors' valuation		2 180 966
12. Goodwill		
12.1 Goodwill comprises:		
Goodwill at cost	640 773	615 850
Accumulated impairment	(22 089)	(22 089)
	618 684	593 761
12.2 Movement for the year		
Balance at beginning of the year	593 761	516 107
Adjustments to purchase consideration – Ambro Sales		537
Acquisitions during the year	24 923	77 117
	618 684	593 761
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	58 520
Pentagon	43 088	43 088
Powermite	26 589	26 589
Ambro Sales	26 146	26 146
Specialised Battery Systems	14 955	
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	10 483
Three-D Agencies	9 968	
Astore Africa	8 453	8 453
Deltec	8 114	8 114
Other	8 803	8 803
	618 684	593 761

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 of all significant amounts of goodwill are estimated by using the higher of the value in use method and the fair value less cost to sell. During the current year, all recoverable amounts were based on value in use.

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

12. Goodwill (continued)

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

Discount rates applied to cash flow projections are based on a South African specific weighted average cost of capital (WACC), which takes into account appropriate risk free rates adjusted for market risk, company specific risk, effective rates of taxation, cost of debt and the relevant weighting between debt and equity. The WACC applied to all CGUs is 14,1% (2012: 15,0%). Consideration was given as to whether the factors pertaining to any of the CGUs warranted the use of an adjusted rate, but it was not considered necessary.

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

Goodwill arising on the acquisition of Global Communications, Keymak, Pentagon, Ambro Sales, Midrand Special Steels, Proof Engineering, Three-D Agencies and Specialised Battery Systems includes an element of purchase consideration based on the attainment of targeted levels of profitability for the respective earn-out periods. Adjustments to the purchase consideration are debited or credited to profit.

13. Intangible assets

R000	Customer relationships	Trade names	Supplier contracts	2013 Total
Cost				
Opening balance	65 414	25 129	9 287	99 830
Acquisition of businesses	4 473	1 713		6 186
Closing balance	69 887	26 842	9 287	106 016
Accumulated amortisation				
Opening balance	30 414	7 249	2 271	39 934
Amortisation for the year	9 665	2 917	3 893	16 475
Closing balance	40 079	10 166	6 164	56 409
Accumulated impairment				
Opening and closing balance	6 083	4 416		10 499
Net book value	23 725	12 260	3 123	39 108

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
The initial expected useful lives are set within these ranges (years):	3-6	10-14	3-5	

Intangible assets were acquired as part of the acquisition of businesses. The costs attributable to these assets have been determined by valuation specialists and management, applying recognised valuation techniques. Intangible assets are tested for impairment upon indication of an impairment. Both the residual values and useful lives are re-assessed annually.

	2013	2012
	R000	R000

14. Deferred taxation

14.1 Deferred taxation comprises temporary differences arising from:

	2013 R000	2012 R000
Accelerated capital allowances	(15 588)	(14 675)
Intangible assets	(11 099)	(13 929)
Calculated tax losses		11 267
Doubtful debt allowances	4 254	2 881
Leave pay and bonus accruals	34 460	24 079
Other	(1 995)	918
Net deferred taxation asset	10 032	10 541

The deferred tax asset has been raised as it is probable that taxable profit will be available against which deductible temporary differences can be utilised.

14.2 Movement for the year

	2013 R000	2012 R000
Balance at beginning of the year	10 541	11 240
Arising on acquisitions during the year	(2 540)	(4 074)
Raised during the year	2 031	3 375
	10 032	10 541

15. Inventories

	2013 R000	2012 R000
Merchandise	1 055 678	862 696
Raw materials and components	19 991	23 026
Work in progress	28 749	32 946
	1 104 418	918 668
Cost of inventory recognised as an expense in cost of sales	2 380 023	2 066 348
Inventory that is expected to be sold after more than 12 months	141 000	93 000
Write-down of inventory to net realisable value and losses of inventory	5 832	5 714
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

	2013 R000	2012 R000
Trade receivables	716 886	654 832
Allowance for doubtful receivables	(17 389)	(12 122)
Other receivables	80 631	29 261
Fair value of forward exchange contracts	499	11 907
	780 627	683 878
Per category:		
At amortised cost	780 128	671 971
Derivatives used for hedging	499	11 907
	780 627	683 878
Allowance for doubtful receivables:		
Balance at beginning of the year	12 122	12 195
Additional allowance charged to profit	10 410	6 385
Allowance reversed to profit	(2 174)	(2 564)
Allowance utilised	(3 439)	(4 205)
Acquisitions during the year	470	311
	17 389	12 122

	2013	2012
	R000	R000

16. Trade and other receivables (continued)

Receivables are reviewed for impairment on an individual basis and factors considered include the nature and credit quality of counter-parties as well as disputes regarding price, delivery and quality of product.

At year end, trade receivables of R146 million (2012: R82 million) were past due but not impaired, being customers of whom there is no recent history of default and are aged as follows:

	2013 R000	2012 R000
Less than 30 days since date due	65 675	31 013
Between 31 and 60 days	28 084	18 273
Between 61 and 90 days	32 543	15 960
More than 90 days	20 061	16 747
	146 363	81 993

17. Shareholders' equity

17.1 Authorised share capital

	2013 R000	2012 R000
40 000 000 ordinary shares of 10 cents each	4 000	4 000

17.2 Issued share capital

	2013 R000	2012 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

	2013 R000	2012 R000
Income retained in:		
Company	331 945	492 682
Subsidiary companies	1 358 982	1 055 446
	1 690 927	1 548 128

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)	
	2013	2012
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
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)]	559	655
	3 444	3 348

[(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)	
	2013	2012	2013	2012
Rights not taken up at beginning of the year	7 198	5 826	1 833	1 851
Rights granted during the year	9 080	10 926	464	405
Forfeited during the year	(7 413)	(6 408)	(23)	(20)
Rights exercised during the year	(5 177)	(4 686)	(147)	(403)
Rights not taken up at end of the year	7 748	7 198	2 127	1 833
First exercisable in the financial years ending:				
November 09		3 975		40
November 10	3 975	3 975	52	65
November 11	5 789	5 701	107	131
November 12	5 689	5 690	206	241
November 13	5 988	5 992	316	362
November 14	6 282	6 282	331	335
November 15	9 042	9 046	308	311
November 16	9 523	9 866	395	226
November 17	9 912	10 926	266	122
November 18	9 080		146	
	7 748	7 198	2 127	1 833

Participants in this scheme will receive a bonus, settled in Hudaco shares at market price, equal to the appreciation in the Hudaco share price between the date of grant (strike price) and the date of exercise, multiplied by the number of rights granted. Tranche 1 vests three years after grant, tranche 2 vests four years after grant and tranche 3 vests five years after grant. Each tranche must be taken up within four years of vesting. The number of rights that may be taken up in each tranche is subject to a performance test generally based on the growth in Hudaco's comparable 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

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	Grant 9
Date of grant	7 Jun 06	15 Feb 08	18 Nov 08	1 Jul 09	7 Aug 10	13 Jul 11	27 Jul 12	12 Jul 13
Number of rights granted	793 500	404 767	120 800	578 500	276 333	277 534	405 433	464 250
Rights forfeited	(79 500)	(89 998)	(20 000)	(44 666)	(26 000)	(22 500)	(6 500)	(1 200)
Rights taken up	(620 163)	(119 934)	(80 600)	(78 168)	(4 833)			
Rights still outstanding	93 837	194 835	20 200	455 666	245 500	255 034	398 933	463 050
Vested rights	93 387	194 835	20 200	293 172	79 836			
Unvested rights				162 494	165 664	255 034	398 933	463 050
Exercise price (R) – strike price	39,75[1]	71,45	55,40	50,50	68,09	81,05	109,26	90,80
Share price at grant date (R)	47,50	72,00	55,50	55,00	68,99	80,85	108,49	90,30
Expected volatility (%)[2]	25	25	25	28	27	34	25	21
Expected dividend yield (%)	3,8	4,0	4,0	4,0	6,0	5,4	5,2	4,7
Risk-free rate (%)	8,2	8,6	8,7	8,6	7,3	7,1	5,9	7,4
Vesting period (years)	3 to 5	3 to 5	2 to 5	3 to 5	3 to 5	3 to 5	3 to 5	3 to 5
Estimated fair value per right (R)[3]	13,83	19,83	10,77	16,71	12,84	21,66	20,00	18,26

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

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

(3) *Weighted average for all three tranches, each of which was valued separately.*

	2013 R000	2012 R000
Employee share-based payment expense included in operating profit arising from share appreciation bonus scheme	6 237	5 758

17.6 Non-distributable reserves

R000	Special reserve account*	Cash flow hedging reserve	Equity compensation reserves	Other share-based payments	Total
Note		24.2.1			
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
Balance at 30 November 2012	332	949	28 420	37 326	67 027
Increase in equity compensation reserves			3 578		3 578
Movement in fair value of cash flow hedges		(541)			(541)
Balance at 30 November 2013	332	408	31 998	37 326	70 064
Less: Shares held by subsidiary company	(41)				(41)
Net balance at 30 November 2013	291	408	31 998	37 326	70 023

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

	2013 R000	2012 R000
18. Non-current liabilities		
18.1 Subordinated debenture		
Unlisted, subordinated debenture		2 180 966
		2 180 966
18.2 Amounts due to vendors of businesses acquired		
Estimated amount due to the vendors of Specialised Battery Systems acquired in 2013. The amount includes imputed interest at 8,5% per annum. The amount finally payable (maximum R75,0 million) is subject to adjustment based on earnings of the business, up to February 2016, which will be debited or credited to profit when the adjustment is determined.	48 741	
Estimated amount due to the vendors of Three-D Agencies acquired in 2013. The amount includes imputed interest at 4,7% per annum. The amount finally payable (maximum R7,0 million) is subject to adjustment based on earnings of the business, up to February 2016, which will be debited or credited to profit when the adjustment is determined.	3 142	
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 (maximum R13,6 million) is subject to adjustment based on earnings of the business, up to February 2015, which will be debited or credited to profit when the adjustment is determined.	10 645	11 280
Amount due to the vendors of Global Communications acquired in 2011. The amount includes imputed interest at 5,2% per annum.	3 242	52 138
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 (maximum R34,3 million) is subject to adjustment based on earnings of the business, up to February 2014, which will be debited or credited to profit when the adjustment is determined.	26 784	31 195
Estimated amount due to the vendors of Filter and Hose Solutions acquired in 2010.		30 529
Estimated amount due to the vendors of Keymak acquired in 2012.		25 943
Total interest-bearing liabilities	92 554	151 085
Less: Payable within 12 months	62 599	88 202
	29 955	62 883
19. Trade and other payables		
Trade payables	519 632	431 631
Other payables	153 031	160 232
	672 663	591 863

Included in other payables are payroll and other accruals.

All trade and other payables are measured at amortised cost.

20. Acquisition of businesses

	Donsteel	Three-D Agencies	Specialised Battery Systems	R000 Total 2013	R000 Total 2012
Effective date of control	1 Mar 2013	1 May 2013	1 Oct 2013		
Fair value of assets acquired:					
Plant and equipment	1 078	1 371	2 055	**4 504**	8 043
Goodwill		9 968	14 955	**24 923**	77 117
Intangible assets		2 283	3 903	**6 186**	16 147
Bank overdraft	(1 270)	(6 005)	(8 304)	**(15 579)**	(1 587)
Inventories	4 463	11 772	18 634	**34 869**	43 432
Trade and other receivables	4 058	9 272	28 803	**42 133**	36 928
Trade and other payables	(2 053)	(6 091)	(5 490)	**(13 634)**	(34 059)
Taxation		(338)	(2 739)	**(3 077)**	(2 377)
Deferred taxation		(732)	(1 808)	**(2 540)**	(4 074)
Net operating assets acquired	6 276	21 500	50 009	**77 785**	139 570
Borrowings assumed	1 270	6 005	8 304	**15 579**	1 587
Balance owed to vendors		(3 042)	(48 465)	**(51 507)**	(35 412)
Net cash outflow on acquisitions	7 546	24 463	9 848	**41 857**	105 745
Profit after tax since acquisition date included in the consolidated results for the year				**7 479**	12 018
Turnover since acquisition date included in the consolidated results for the year				**95 980**	131 741
Group profit after tax had the business combinations been included for the entire year				**315 037**	357 579
Group turnover had the business combinations been included for the entire year				**4 080 685**	3 614 890

21. Dividends

Dividend number 52 of 310 cents per share declared on 31 January 2013	**105 876**	105 876
The record date was 8 March 2013 and the dividend was paid on 11 March 2013		
Dividend number 53 of 155 cents per share declared on 27 June 2013	**52 938**	52 938
The record date was 16 August 2013 and the dividend was paid on 19 August 2013		
Dividends paid to subsidiary company	**(11 661)**	(11 661)
	147 153	147 153

On 30 January 2014, the directors declared dividend number 54 of 310 cents per share, being the final dividend in respect of the year ended 30 November 2013. The record date will be 7 March 2014 and the dividend will be paid on 10 March 2014. This dividend has not been included as a liability in these financial statements.

Notes to the **group financial statements** continued

for the year ended 30 November 2013

	2013 R000	2012 R000
22. Notes to the statement of cash flows		
22.1 Increase in working capital		
Increase in inventories	(150 881)	(62 141)
Increase in trade and other receivables	(54 616)	(30 723)
Increase (decrease) in trade and other payables	67 166	(28 525)
	(138 331)	(121 389)
22.2 Taxation paid		
Amounts owed at beginning of the year	(6 272)	(7 635)
Current tax charge	(117 033)	(48 108)
Prior year over (under) provision	1 174	(3)
Securities transfer tax	(5 452)	
Secondary tax on companies	(1 260)	(1 579)
Foreign tax charge	404	(554)
Capital gains tax	(33)	
Acquired during the year	(3 077)	(2 377)
Net amounts (paid in advance) owed at end of the year	(37 064)	6 272
	(168 613)	(53 984)
22.3 Payments to vendors of businesses acquired		
Amounts owed at beginning of the year	(151 085)	(235 100)
Interest imputed on amounts owed	(4 542)	(11 202)
Acquisitions during the year	(51 507)	(35 412)
Adjustment to purchase price debited to goodwill		(537)
Adjustment to purchase price (debited) credited to statement of income	(23 410)	7 562
Amounts owed at end of the year	92 554	151 085
	(137 990)	(123 604)
22.4 Finance costs paid		
Finance costs	(70 346)	(249 691)
Imputed on amounts due to vendors of businesses acquired	4 542	11 202
	(65 804)	(238 489)
22.5 Dividends paid		
To shareholders of the group	(147 153)	(147 153)
To non-controlling shareholders	(16 800)	(15 694)
	(163 953)	(162 847)
22.6 Cash and cash equivalents		
Bank deposits and balances	15 520	75 902
Bank overdraft	(219 660)	(92 521)
	(204 140)	(16 619)

	2013 R000	2012 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:

	2013 R000	2012 R000
Within one year	65 590	61 682
Payable in second to fifth years	109 812	105 195
Payable thereafter	26 192	1 458
	201 594	168 335

23.2 Property, plant and equipment

The group has budgeted to spend R59 million to acquire property, plant and equipment in 2014, none of which is committed or contracted for. Total capital expenditure will be financed by net cash flow from operations and the utilisation of unutilised borrowing facilities.

23.3 Taxation

The group has received and is strongly refuting tax assessments relating to the financing of the BEE transaction. The maximum exposure for tax, interest and penalties is considered to be R1,7 billion but the prospects of having to pay such an amount are considered remote. Under the "pay now, argue later" requirements, the group is making payments of R20 million per quarter from July 2013 until the matter is resolved. Refer to the directors' report on page 66.

23.4 Acquisitions

After year end the group acquired companies for a maximum consideration of R154,2 million. Refer note 26.

24. Financial instruments

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

24.1 Summary of financial instruments

24.1.1 Carrying value of financial instruments

	2013 R000	2012 R000
Financial assets by class:		
Investment in preference shares		2 180 966
Trade receivables	699 497	642 710
Other receivables	80 631	29 261
Fair value of forward exchange contracts	499	11 907
Bank deposits and balances	15 520	75 902
	796 147	2 940 746
Financial assets by category:		
At amortised cost	795 648	2 928 839
Derivatives used for hedging at fair value	499	11 907
	796 147	2 940 746

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

	2013	2012
	R000	R000

24. Financial instruments (continued)

24.1 Summary of financial instruments (continued)

24.1.1 Carrying value of financial instruments (continued)

	2013 R000	2012 R000
Financial liabilities by class:		
Subordinated debenture		2 180 966
Amounts due to vendors of businesses acquired	92 554	151 085
Bank overdraft	219 660	92 521
Trade payables	519 632	431 631
Other payables	153 031	160 232
	984 877	3 016 435

Financial liabilities by category:

All financial liabilities are measured at amortised cost.

24.1.2 Fair value of financial instruments

	2013 R000	2012 R000
Financial assets by class:		
Investment in preference shares – including related put option		2 389 660
Trade receivables	699 497	642 710
Other receivables	80 631	29 261
Bank deposits and balances	15 520	75 902
Fair value of forward exchange contracts	499	11 907
	796 147	3 149 440
Financial liabilities by class:		
Subordinated debenture		2 208 462
Amounts due to vendors of businesses acquired	92 554	151 085
Bank overdraft	219 660	92 521
Trade payables	519 632	431 631
Other payables	153 031	160 232
	984 877	3 043 931

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

24. Financial instruments (continued)

24.2 Market risk

24.2.1 Foreign currency risk

The group imports more than 60% of its cost of sales and consequently has a significant exposure to currency risk. Group policy is to take forward cover on all foreign currency liabilities (which effectively changes them from foreign to local currency liabilities) and on a portion (determined from time to time and generally between 20% and 30%) of orders placed but not yet shipped. Order lead times vary between a few days and 12 months. The objective is to have forward cover in place well before goods are shipped.

Cash flow hedges – at 30 November 2013 the group had entered into the following forward exchange contracts relating to forecast purchase transactions, ie orders placed on suppliers but not yet shipped. These contracts for the purchase of foreign currency will be utilised for settlement of shipments received during the next two months:

	Year end spot rate	Foreign amount	Contract rate	Rand equivalent
		000		R000
Japanese Yen	10,50	89 543	9,59	9 334
US Dollar	10,19	5 230	10,14	53 059
Singapore Dollar	8,14	15	8,04	117
Pound Sterling	16,73	681	16,46	11 206
Euro	13,86	3 258	13,72	44 686
Total cost of contracts				118 402
Fair value – Rand equivalent of the above contracts at year end spot rates				118 891
Profit recognised directly in equity on import orders*				489
Attributable to non-controlling shareholders				(81)
Attributable to shareholders of the group (note 17.6)				408

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

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

24.2.2 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.

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

	Year of repayment	Interest rate	2013	2012
		%	R000	R000
Subordinated debenture				2 180 966
Amounts due to vendors of businesses acquired				
– Specialised Battery Systems	2014 – 2016	8,5	48 741	
– Three-D Agencies	2014 – 2016	4,7	3 142	
– Proof Engineering	2013 – 2015	5,3	10 645	11 280
– Global Communications	2014	5,2	3 242	52 138
– Pentagon	2014	5,2	26 784	31 195
– Keymak	2013	5,3		25 943
– Filter and Hose Solutions	2013	5,5		30 529

24. Financial instruments (continued)

24.3 Credit risk

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

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

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

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

	2013	2012
	R000	R000
Investment in preference shares		2 180 966
Trade receivables	699 497	642 710
Other receivables	80 631	29 261
Fair value of forward exchange contracts	499	11 907
Bank deposits and balances	15 520	75 902
	796 147	2 940 746

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 2013 were R63 million.

There is no restriction on borrowing powers in terms of the memorandum of incorporation and at 30 November 2013 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 2013	Repayable during the year ending 30 November 2014	2015 to 2016
	R000	R000	R000
Amounts due to vendors of businesses acquired	92 554	62 599	29 955
Bank overdraft	219 660	219 660	
Trade payables	519 632	519 632	
Other payables	153 031	153 031	

	2013	2012
	R000	R000
24.5 Fair value of financial instruments		
The profit arising on the fair value adjustment on all forward exchange contracts is set out below:		
Cash flow hedges (note 24.2.1)	489	1 096
Fair value hedges (on contracts of R360 million at year end spot rates)	10	10 811
	499	11 907

The book value of all non-derivative financial instruments approximates their fair value at 30 November 2013.

24. Financial instruments (continued)

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 setting the maximum amount of unsubordinated debt the group would carry, the group's objective would also be to have net interest covered at least five times by operating profit; net interest being interest paid on debt less interest received.

25. Retirement benefits

It 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. It has been resolved by the trustees of the separate plans that members will transfer to umbrella funds administered by Old Mutual. This process is currently under way.

Contributions to retirement funding during the year amounted to R33,5 million (2012: R28,3 million). All permanent employees are required to become members of one of these plans unless they are obliged by legislation to be members of various industry funds.

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

26. Events after reporting date

On 12 December 2013, Hudaco Trading Pty Ltd acquired the following companies from a company controlled by Graham Dunford, a director of Hudaco:

- Joseph Grieveson Pty Ltd;
- Dosco Precision Hydraulics Pty Ltd;
- Gear Pump Manufacturing Pty Ltd; and
- Engineering Technology Services Pty Ltd.

These businesses have two main areas of activity: machining, repair and sale of hydraulic pumps for the local and export market and the production of ferrous and non-ferrous castings for a diversity of industries in South Africa.

Hudaco constantly seeks out opportunities to expand operations and these businesses were acquired in order to increase the revenue earning capacity of the group. Hudaco Trading subscribed for new shares in the companies and the existing shares were then bought back from the shareholders in terms of section 114 of the Companies Act, resulting in Hudaco Trading becoming the sole shareholder.

The total consideration for the shares is made up of two elements: an initial cash payment of R52,2 million which has been paid since year end and a further cash amount to be paid by 31 May 2014. This second element is based on a requirement that the seller acquire a maximum of 927 000 Hudaco Industries Limited shares. This portion of the consideration is dependent on the cost of the Hudaco Industries Limited shares to be acquired, but the maximum total consideration is limited to R154,2 million.

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

The provisional fair values of assets acquired are:

	R000
Plant and equipment	17 742
Goodwill	107 621
Intangible assets	16 902
Cash and cash equivalents	6 814
Inventories	31 500
Trade and other receivables	45 469
Trade and other payables	(42 525)
Borrowings	(14 044)
Taxation	(8 060)
Deferred taxation	(7 200)
Net operating assets acquired	154 219

26. Events after reporting date (continued)

No revenue or profit from these companies has been included in the results of Hudaco for the current year. Had these companies been acquired at the beginning of the financial year, the following amounts would have been included in the Hudaco group statement of consolidated income for the year ending November 2013:

	R000
Turnover	221 291
Profit after taxation	27 847

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	
	2013	2012	2013	2012
RT Vice	4 000	4 000		
SJ Connelly	207 639	207 639	1 680	1 680
CV Amoils			7 500	7 500
GR Dunford	19 309	10 000		
	230 948	221 639	9 180	9 180

The shareholdings above have not changed between 30 November 2013 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
2013									
SJ Connelly	405 500		20 000		425 500				
	100 000	71,45			100 000	15 Feb '08	3	Feb '11 – Feb '17	
	155 000	50,50			155 000	01 Jul '09	3	Jul '12 – Dec '17	
	62 500	68,09			62 500	07 Aug '10	3	Aug '13 – Dec '17	
	58 000	81,05			58 000	13 Jul '11	3	Jul '14 – Dec '17	
	30 000	109,26			30 000	27 Jul '12	2	Jul '15 – Dec '17	
		90,80	20 000		20 000	12 Jul '13	1	Jul '16 – Dec '17	
CV Amoils	152 000		27 000		179 000				
	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	
	30 000	109,26			30 000	27 Jul '12	3	Jul '15 – Jul '21	
		90,80	27 000		27 000	12 Jul '13	3	Jul '16 – Jul '22	
GR Dunford	213 500		28 000	21 667	219 833				1 116
	65 000	39,75		21 667	43 333	6 Jul '06	3	Jul '09 – Jul '15	1 116
	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	
	32 000	109,26			32 000	27 Jul '12	3	Jul '15 – Jul '21	
		90,80	28 000		28 000	12 Jul '13	3	Jul '16 – Jul '22	
	771 000		75 000	21 667	824 333				1 116
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 – Dec '17	
	62 500	68,09			62 500	7 Aug '10	3	Aug '13 – Dec '17	
	58 000	81,05			58 000	13 Jul '11	3	Jul '14 – Dec '17	
		109,26	30 000		30 000	27 Jul '12	2	Jul '15 – Dec '17	
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

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 comparable earnings per share during the period, generally 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.*

27. Directors' interest and remuneration (continued)

27.3 Directors' emoluments

Non-executive directors	Base fee	Attendance fee [1]	Total remuneration
R000			
2013			
RT Vice	714	77	791
PC Baloyi [2]	82		82
DD Mokgatle [3]	266	72	338
SG Morris	369	77	446
D Naidoo	340	77	417
	1 771	303	2 074
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

[1] *From 1 April 2013 no attendance fees were paid but penalties would have been incurred for non-attendance.*
[2] *Appointed 27 July 2013.*
[3] *Resigned 25 October 2013.*

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	Bonus on share appreciation rights exercised[2]
R000								
2013								
SJ Connelly	3 448	414	520	2 500	6 882	1 026	7 908	
CV Amoils	1 853	230	337	1 559	3 979	562	4 541	
GR Dunford	1 953	277	295	1 834	4 359	517	4 876	1 116
	7 254	921	1 152	5 893	15 220	2 105	17 325	1 116
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

[1] *The fair value of share appreciation bonus rights granted is the annual expense in terms of IFRS 2.*
[2] *This represents the difference between the market price and the strike price on the date the rights were exercised. The fair value of the rights has been expensed in prior years in terms of IFRS 2 so there is an element of double counting.*

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).

28. Related party transactions (continued)

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

Hudaco has no associates or joint venture partners. The company and its subsidiaries do have dealings with each other but these are eliminated on consolidation and are not dealt with in this note. A list of principal subsidiaries is provided on page 103.

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.

	2013	2012
	R000	R000
Compensation of key management personnel		
Short-term employee benefits	28 813	28 904
Share-based payments[1]	2 905	3 235
	31 718	32 139

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

Directors

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

	2013	2012
	R000	R000
Interests in contracts and transactions with key management personnel		
Goods bought from companies controlled by key management	2 235	2 369
Goods sold to companies controlled by key management	23	140

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 397 498 (2012: R1 282 113). This lease expires on 31 December 2016. Rental paid in respect of the Powermite branch amounted to R288 789 (2012: R407 301). This lease was cancelled in July 2013.

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

On 12 December 2013 (after reporting date) Hudaco Trading Pty Ltd acquired 100% of the shares of Dosco Precision Hydraulics Pty Ltd, Gear Pump Manufacturing Pty Ltd, Joseph Grieveson Pty Ltd and Engineering Technology Services Pty Ltd from a company controlled by GR Dunford, a director of Hudaco. See note 26.

29. Segment information

	Group		Head office, shared services and eliminations		Engineering consumables		Consumer-related-products	
R million	2013	2012	2013	2012	2013	2012	2013	2012
Statement of net income								
Turnover	3 942	3 492	(6)	(11)	2 478	2 280	1 470	1 223
– Ongoing operations	3 558	3 360	(6)	(11)	2 273	2 216	1 291	1 155
– Operations acquired in 2012 and 2013	384	132			205	64	179	68
EBITDA	514	477	(20)	(10)	322	307	212	180
Depreciation less recoupments	28	24	2	2	19	16	7	6
Amortisation of intangible assets	17	16			11	11	6	5
Operating profit	469	437	(22)	(12)	292	280	199	169
– Ongoing operations	429	418	(22)	(12)	272	268	179	162
– Operations acquired in 2012 and 2013	40	19			20	12	20	7
Reversal of impairment on property		1						1
Fair value adjustments to amounts due to vendors	(23)	8			(22)	8	(1)	
Profit before interest and dividends received	446	446	(22)	(12)	270	288	198	170
Statement of financial position								
Property, plant and equipment	214	205	1	1	179	172	34	32
Goodwill	619	594			399	388	220	206
Intangible assets	39	49			23	32	16	17
Deferred taxation – net	10	10	7	18	3	(5)		(3)
Inventories	1 104	919			740	623	364	296
Trade and other receivables	780	684	5	12	438	376	337	296
Trade and other payables	(673)	(592)	(16)	(22)	(354)	(308)	(303)	(262)
Taxation	37	(6)	124	65	(48)	(42)	(39)	(29)
Net operating assets	2 130	1 863	121	74	1 380	1 236	629	553
Additional information								
Average net operating assets	2 119	1 773	124	117	1 394	1 169	601	487
Capital expenditure	38	43	1	1	28	36	9	6
Operating profit margin (%)	11,9	12,5			11,8	12,3	13,5	13,8
Return on average net operating assets (%)	22,1	24,6			20,9	24,0	33,1	34,7
Number of permanent employees	2 688	2 588	20	25	1 983	1 878	685	685

No secondary segment information has been prepared as revenue and assets outside South Africa are less than 10% of the group total.

The performance of operating segments is measured at operating profit level. Management of interest and dividends received is centralised.

Company **financial statements**

for the year ended 30 November 2013

Hudaco Industries Limited

Statement of financial position

at 30 November 2013

	2013	2012
	R000	R000
Assets		
Non-current assets		
Interest in subsidiaries (note 1)	387 898	548 630
Current assets	286	269
Receivables and taxation	284	267
Bank deposits and balances	2	2
Total assets	388 184	548 899
Equity and liabilities		
Shareholders' equity	387 225	547 962
Current liabilities		
Payables and taxation	959	937
Total equity and liabilities	388 184	548 899

Statement of comprehensive income

for the year ended 30 November 2013

	2013	2012
Dividends received from subsidiaries	751	419 037
Operating costs	2 618	2 294
(Loss) profit before interest	(1 867)	416 743
Finance cost	8	
(Loss) profit before taxation	(1 875)	416 743
Taxation – South African normal tax	48	
(Loss) profit after taxation	(1 923)	416 743

Statement of changes in equity

for the year ended 30 November 2013

R000	Share capital	Share premium	Special reserve account*	Retained income	Share-holders' equity
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
Loss after taxation				(1 923)	(1 923)
Dividends to shareholders				(147 153)	(147 153)
Dividends to subsidiary				(11 661)	(11 661)
Balance at 30 November 2013	3 415	51 533	332	331 945	387 225

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

Company **financial statements** continued

for the year ended 30 November 2013

Statement of cash flows

for the year ended 30 November 2013

	2013	2012
	R000	R000
Cash generated from operating activities		
Dividends and interest received	751	419 037
Proceeds from capital reduction in subsidiary		18 584
Interest paid	(8)	
Operating costs paid	(2 618)	(2 294)
Decrease (increase) in working capital	5	(241)
Cash generated from operating activities	(1 870)	435 086
Taxation paid	(48)	(513)
Cash flow from operations	(1 918)	434 573
Dividends	(158 814)	(158 814)
Net cash (applied) retained	(160 732)	275 759
Cash applied to investment activities		
Decrease (increase) in loans to subsidiary companies	160 732	(275 757)
Net cash retained		2
Cash flow from financing activities		
Increase in bank deposits and balances		(2)
Net financing repaid		(2)

Notes to the company financial statements

	2013	2012
	R000	R000
1. Interest in subsidiaries		
Shares at cost less amounts written off	92 275	92 275
Loans to subsidiaries	295 623	456 355
	387 898	548 630
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		
Audit fees for the current year	100	100

3. Contingent liability

The company has guaranteed the senior banking facilities of Hudaco Trading Pty Ltd. The maximum exposure in this regard is approximately R642 million and the exposure is R382 million at year end.

Principal **subsidiaries**

at 30 November 2013

	Issued share capital R unless indicated otherwise	Interest of holding company					
		Group's effective interest		Book value of shares		Loans owing by	
		2013	2012	2013	2012	2013	2012
		%	%	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							
Deutz Dieselpower							
Donsteel							
Elvey Security Technologies							
Ernest Lowe							
Filter and Hose Solutions							
Global Communications							
Keymak							
Midrand Special Steels							
Pentagon							
Powermite							
Proof Engineering							
Rutherford							
Specialised Battery Systems							
Three-D Agencies							
Varispeed							
Hudaco Investment Company Limited	26 160	100	100	48 158	48 158	295 623	456 355
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				
Valhold Ltd	959 841	100	100	37 692	37 692		
Valard Ltd	874 149	100	100	6 423	6 423		
Interest in subsidiaries				92 275	92 275	295 623	456 355

[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.

Shareholder **analysis**

as at 30 November 2013

	Number of shares	% of issued share capital	Number of shareholders
Shareholder analysis			
Portfolio size			
1 – 1 000 shares	916 529	2,90	2 533
1 001 – 5 000 shares	1 339 825	4,23	567
5 001 – 10 000 shares	1 006 420	3,18	133
10 001 – 100 000 shares	6 748 228	21,32	205
Over 100 000 shares	21 634 701	68,37	62
Total[(1)]	31 645 703	100,00	3 500
Category			
Banks and nominee companies	1 549 169	4,90	22
Financial institutions and pension funds	23 950 708	75,68	210
Individuals	4 057 622	12,82	3 192
Other corporate bodies	2 088 204	6,60	76
Total[(1)]	31 645 703	100,00	3 500
Shareholder spread			
Public	31 400 875	99,99	3 491
Non-public	244 828	0,01	9
Directors and associates[(2)]	240 628	0,01	8
Share trust	4 200		1
Total[(1)]	31 645 703	100,00	3 500

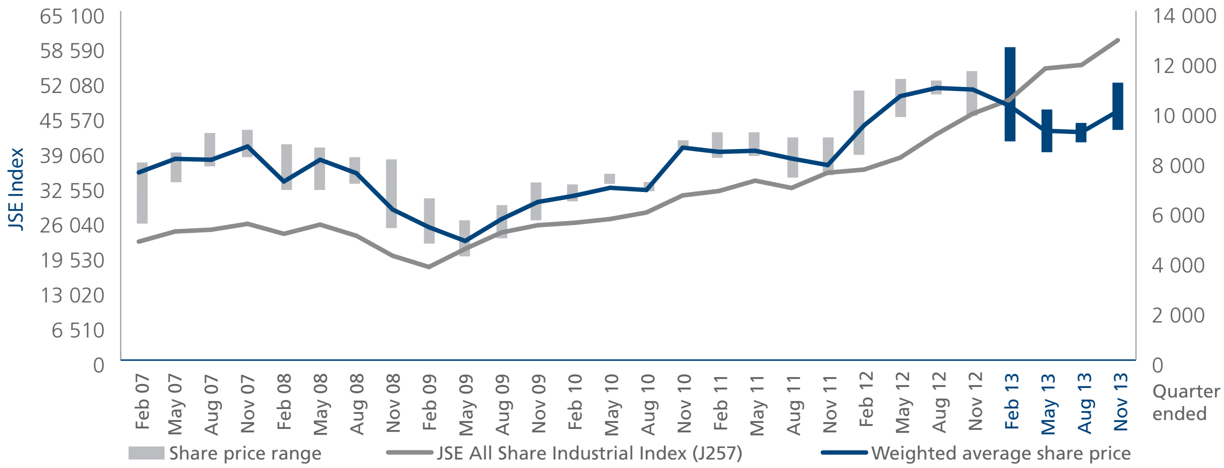
	Number of shares held	% of issued share capital
Major shareholders		
Beneficial shareholders holding more than 3%		
Old Mutual Life Assurance Co (South Africa)	3 127 089	9,88
Government Employees Pension Fund	2 743 810	8,67
Nedgroup Investments Value Fund	1 553 300	4,91
Foord Balanced Fund	1 410 937	4,46
Government of Norway	990 466	3,13
Fund managers holding more than 3%		
Old Mutual Investment Group (South Africa)	7 119 233	22,50
Foord Asset Management	3 925 347	12,40
Public Investment Corporation	2 658 741	8,40
Prudential Group	2 480 865	7,84
Sanlam Investment Management	1 430 219	4,52
Peregrine Group	1 281 705	4,05
Three Six One Asset Management	1 252 869	3,96

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

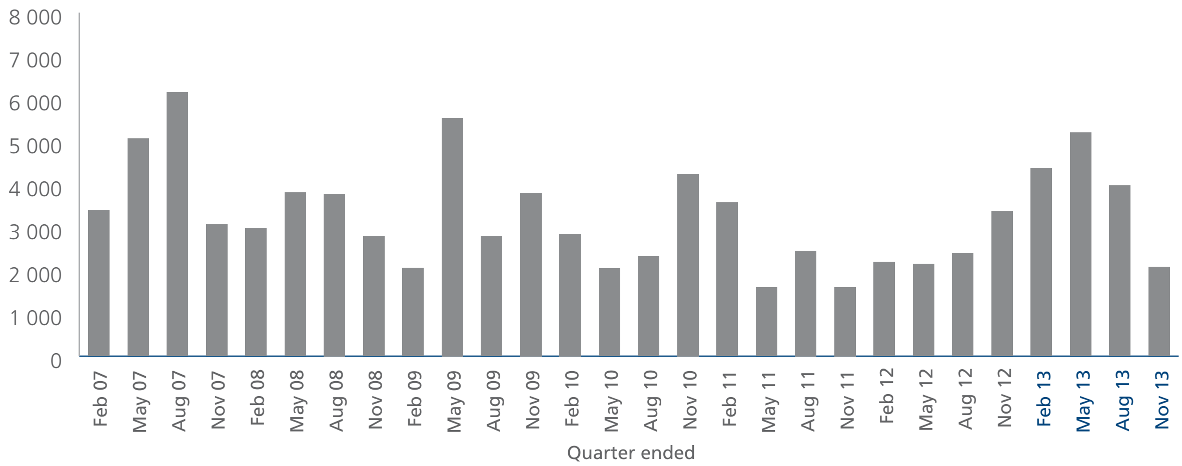
(2) *Directors' shareholdings are set out in note 27.1 to the financial statements. A list of shareholdings of senior management is available on request from the group secretary.*

Share **information**

Share price history



Volume traded on JSE (000)



	2013	2012	2011	2010	2009	2008	2007
JSE statistics							
Market price (cents)	10 365	11 200	8 475	8 501	6 600	5 600	8 500
NAV per share (cents)	5 737	5 277	4 721	4 080	3 681	3 282	2 623
Number of shares in issue ('000)*	31 646	31 646	31 646	31 540	31 240	30 923	30 754
Market capitalisation (Rm)*	3 280	3 544	2 682	2 681	2 062	1 732	2 614
Price: earnings ratio (times)	9,62	10,4	10,1	10,9	7,2	8,1	14,3
All Share Industrial Index PE ratio (J257)	21,02	18,7	17,4	17,3	15,9	11,4	16,3
Dividend yield (%)	4,5	4,2	4,3	4,1	5,8	5,8	2,4
All Share Industrial Index dividend yield (J257) (%)	2,2	2,4	2,6	2,1	2,2	3,6	1,9
Annual trade in Hudaco shares							
Number of transactions recorded	23 223	12 034	7 427	5 506	4 963	4 966	4 967
Volume of shares traded ('000)	15 638	10 121	9 242	11 461	15 113	13 355	17 682
% of issued shares traded*	48	32	29	36	48	43	54
Value of shares traded (Rm)	1 496	1 062	757	822	791	974	1 390

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

Notice **of annual general meeting**

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

Notice to shareholders of the 29th Annual General Meeting (AGM) of Hudaco Industries Limited

Notice is hereby given that the 29th AGM of shareholders of the company for the year ended 30 November 2013 will be held at 11:00 on Thursday, 27 March 2014 in the boardroom at Hudaco's corporate offices situated at Building 9, Greenstone Hill Office Park, Emerald Boulevard, Greenstone Hill, Edenvale. Registration for attendance will commence at 10:30.

Important dates and times [1,2]	2014
Record date for determining which shareholders are entitled to receive the AGM notice	Friday, 7 February
Notice posted to shareholders on[3]	Thursday, 13 February
Record date for attending and voting at the AGM	Thursday, 20 March
Last day for shareholders to lodge forms of proxy for the AGM by 11:00	Tuesday, 25 March
AGM to be held at 11:00	Thursday, 27 March
Results of AGM to be released on SENS on	Thursday, 27 March

Notes
(1) All times referred in this notice are local times in South Africa.
(2) Any material variation of the above dates and times will be announced on SENS and published in the press.
(3) The Hudaco board of directors ("the board") has determined that the record date for the purpose of determining which shareholders are entitled to receive the AGM notice is Friday, 7 February 2014, and the record date for purposes of determining which shareholders of the company are entitled to participate and vote at the AGM is Thursday, 20 March 2014. Accordingly, only shareholders who are recorded as such in the register maintained by the transfer secretaries of the company on Thursday, 20 March 2014 will be entitled to participate in and vote at the AGM.
(4) Kindly note that AGM participants (including shareholders and proxies) are required to provide satisfactory picture identification before being entitled to attend or participate at the AGM. Forms of satisfactory identification include valid identity documents, driver's licences and passports.

Business to be transacted

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

1. To present the audited consolidated financial statements of the company (as approved by the board), as well as the external auditor, audit and risk management committee, social and ethics committee and directors' reports for the financial year ended 30 November 2013, distributed as required.

   Copies of the full audited consolidated annual financial statements for the year ended 30 November 2013 are obtainable from the company's website: www.hudaco.co.za or from the group secretary.

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

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

   2.1 Ordinary Resolution Number 1.1: Re-election of Mr SJ Connelly; and
   2.2 Ordinary Resolution Number 1.2: Re-election of Mr RT Vice.

   The remuneration and nomination committee of the board has reviewed the composition of the board against corporate governance and transformation requirements and has recommended the re-election of the directors listed above in 2. It is the view of the board that re-election of the candidates referred in 2 above would enable the company to:

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

Note

In terms of clause 21.6.1 of the company's MOI at least one third of the directors must retire each year and are eligible for re-election. The directors who shall retire shall be the longest serving directors since their last election. Brief curricula vitae of directors who have offered themselves for re-election are included either on pages 18 and 19 of the Hudaco integrated report, which is available on the company's website: www.hudaco.co.za or from the group secretary.

3. Ordinary Resolution Number 2: To elect a director appointed since the previous AGM

To elect as director Mr PC Baloyi, appointed by the board during the course of the year and who is required to retire in terms of clause 21.2.6 of the company's MOI and who is eligible and has offered himself for election.

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 Mr PC Baloyi. It is the view of the board that re-election of this candidate would enable the company to:

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

Note

In terms of clause 21.2.6 of the company's MOI directors who are appointed by the board shall retire at the first succeeding annual general meeting and shall be eligible for election. A brief curriculum vitae of Mr PC Baloyi is available on page 18 of the Hudaco integrated report.

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

To re-appoint Grant Thornton as independent auditors of Hudaco and to note that the individual registered auditor who will undertake the audit for the financial year ending 30 November 2014 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: Appointment of the members of the audit and risk management committee

To elect each by way of a separate vote, the members of the audit and risk management committee of the company, with effect from the end of the AGM:

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

5.2 Ordinary Resolution Number 4.2: To elect Mr PC Baloyi as member, subject to the passing of Ordinary Resolution Number 2; and

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

Under the Companies Act the audit committee is a committee elected by the shareholders at each AGM. A brief *curriculum vitae* of each of the independent non-executive directors mentioned above appears on either page 18 or page 19 of the Hudaco integrated report.

The board has reviewed the proposed composition of the audit and risk management committee against the requirements of the Companies Act and the Companies Regulations 2011 and has confirmed that the proposed audit and risk management committee will comply with the relevant requirements and have the necessary knowledge, skills and experience to enable the committee to perform its duties in terms of the Companies Act. Accordingly, the board recommends the election of the directors listed above as members of the audit and risk management committee.

6. Special Resolution Number 1: Approval of non-executive directors' remuneration

That the remuneration payable to the non-executive directors of Hudaco for their services as directors for the period 1 April 2014 until 31 March 2015, be and it is hereby approved as set out below:

	Proposed 2014		2013	
	Base fee	Penalty for non-attendance	Base fee	Penalty for non-attendance
R				
Board Chairman of the board	R800 000*	R16 000	R650 000	R15 000
Board member	R215 000	R11 000	R200 000	R10 000
Audit and risk management committee Chairman of the committee	R185 000	R16 000	R175 000	R15 000
Committee member	R100 000	R11 000	R95 000	R10 000
Remuneration and nomination committee Chairman of remuneration part	R130 000	R16 000	R70 000	R15 000
Committee member	R64 000	R11 000	R60 000	R10 000
Social and ethics committee chairman	R112 000	R16 000	R105 000	R15 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 – R22 000 (2013: R20 000), Member – R16 000 (2013: R15 000).

** All inclusive fee.*

Reason and effect of Special Resolution Number 1

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

Therefore the reason for and effect of Special Resolution Number 1 is to approve the payment of and the basis for calculating the remuneration payable by Hudaco to its non-executive directors for their services as directors of the company for the period 1 April 2014 until 31 March 2015. The fees payable to the non-executive directors are detailed above. Further details on the basis of calculation of remuneration are included in the remuneration report on page 31 of the Hudaco integrated report.

7. Non-binding Resolution Number 1: Endorsement of Hudaco's remuneration policy

That shareholders endorse, through a non-binding advisory vote to ascertain the shareholders' view, Hudaco's remuneration policy and its implementation. Hudaco's remuneration report is set out on pages 29 to 31 of its integrated report.

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

8. Special Resolution Number 2: Authorising the provision of financial assistance to subsidiaries

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

Reason and effect of Special Resolution Number 2

In the normal cause of business the company is often required to grant financial assistance to subsidiary companies. This assistance includes but not limited to loans and guarantees for banking facilities. If this authorisation is not granted, it could inhibit the group from making acquisitions or obtaining banking facilities without having to call a general meeting of shareholders on each occasion. Special Resolution Number 2 will enable the company to provide financial assistance to subsidiaries in the Hudaco group for any purpose in the normal course of business.

Section 45 of the Companies Act provides, among others, that financial assistance to subsidiaries must be provided only pursuant to a special resolution of the shareholders, adopted within the previous two years, which approved such assistance whether for the specific recipient, or generally for a category of potential recipients, and the specific recipient falls within that category and the board of directors must be satisfied that: (a) immediately after approving the financial assistance, the company would satisfy the solvency and liquidity test, and (b) the terms under which the financial assistance is proposed to be given are fair and reasonable to the company.

9. Special Resolution Number 3: General authority to repurchase up to 5% of its shares

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

- any such acquisition of ordinary shares shall be effected through the order book operated by the JSE trading system and done without any prior understanding or arrangement between Hudaco and the counterparty;
- this general authority shall be valid until Hudaco's next AGM, provided that it shall not extend beyond 15 months from the date of passing of this special resolution;
- an announcement will be published as soon as Hudaco or any of its subsidiaries have acquired ordinary shares constituting, on a cumulative basis, 3% of the number of ordinary shares in issue and for each 3% in aggregate of the initial number acquired thereafter, in compliance with Rule 11.27 of the JSE Listings Requirements;
- acquisitions of ordinary shares in aggregate in any one financial year may not exceed 5% of Hudaco's ordinary issued share capital as at the date of passing of this Special Resolution Number 3;
- ordinary shares may not be acquired at a price greater than 10% above the weighted average of the market value at which such ordinary shares are traded on the JSE as determined over the five business days immediately preceding the date of repurchase of such ordinary shares by Hudaco or any of its subsidiaries;
- Hudaco has been given authority by its MOI;
- at any point in time, Hudaco may only appoint one agent to effect any repurchase on its behalf;
- Hudaco undertakes that it will not enter the market to repurchase Hudaco's securities until Hudaco's sponsor has provided written confirmation to the JSE regarding the adequacy of Hudaco's working capital in accordance with Schedule 25 of the JSE Listings Requirements;
- prior to entering the market to repurchase the company's shares, a company resolution authorising the repurchase will have been passed in accordance with the requirements of section 46 of the Companies Act, stating that the board has applied the solvency and liquidity test as set out in section 4 of the Companies Act, and has reasonably concluded that the company will satisfy the solvency and liquidity test immediately after the repurchase; and
- Hudaco and/or its subsidiaries may not repurchase any ordinary shares during a prohibited period as defined by the JSE Listings Requirements unless a repurchase programme is in place, where the dates and quantities of ordinary shares to be traded during the prohibited period are fixed and full details of the programme have been 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 and the group; and
- Hudaco and the group's ordinary share capital, reserves and working capital will be adequate for ordinary business purposes.

www

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

- directors and management – pages 18 to 21;
- major beneficial shareholders – page 104;
- directors' interests in securities – pages 96 and 97; and
- share capital of the company – note 17 on page 85.

Litigation statement

In terms of section 11.26 of the JSE Listings Requirements, the directors, whose names appear on pages 18 and 19 of the Hudaco integrated report as published on Hudaco's website, 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 except for the matter relating to the assessments received from the South African Revenue Service (against which objection has been lodged and application has been made in the High Court) as set out on page 24 of the Hudaco integrated report.

Directors' responsibility statement

The directors, whose names appear on pages 18 and 19 of this integrated report, collectively and individually accept full responsibility for the accuracy of the information pertaining to this Special Resolution Number 3 and certify that, to the best of their knowledge and belief, there are no facts that have been omitted which would make any statements false or misleading, and that all reasonable enquiries to ascertain such facts have been made and that this Special Resolution Number 3 contains all information required by law and the JSE Listings Requirements.

Material changes

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

Reason and effect of Special Resolution Number 3

The reason for and effect of this special resolution is to grant the directors of Hudaco a general authority in terms of the Companies Act and the JSE Listings Requirements for the repurchase by Hudaco, or a subsidiary of Hudaco, of up to 5% of its ordinary shares.

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

10. Ordinary Resolution Number 5 – General authority to directors to allot and issue authorised but unissued ordinary shares up to 5% of the shares in issue

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

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

11. Ordinary Resolution Number 6 – General authority to issue shares for cash up to 5% of the shares in issue

That, subject to the general authority proposed in terms of 10 above, the directors of the company be and they are hereby authorised by way of general authority to issue authorised but unissued shares in the capital of the company for cash, as and when they in their discretion deem fit, subject to the JSE Listings Requirements, which currently provide, *inter alia,* that:

- issues of shares in any one financial year shall not exceed 5% (being an equivalent of 1 582 285 Hudaco shares) of the number of shares of Hudaco's issued share capital, excluding treasury shares, as at the date of the AGM;
- any securities issued under this authority must be deducted from the initial number of securities available under this authority;
- in the event of a sub-division or consideration of issued securities during the period of this authority, the existing authority must be adjusted accordingly to represent the same allocation ratio;
- the securities to be issued for cash shall be of a class already in issue, or where this is not the case, shall be limited to such securities or rights that are convertible to a class already in issue;
- any issue of securities shall be to public shareholders as defined by the JSE Listings Requirements, and not to related parties;
- this authority shall only be valid until the next AGM of Hudaco but shall not ensure beyond the period of 15 months from the date of this AGM;
- a paid press announcement giving details of the number of securities issued, the average discount to the weighted average traded price of the securities over the 30 business days prior to the date that the issue is agreed in writing and the effects of the issue on net asset value, net tangible asset value earnings and headline earnings per share, will be published at the time of such allotment and issue of shares representing, on a cumulative basis within one year, 5% of the number of shares of that class in issue prior to that issue; and
- in determining the price at which allotment and issue of shares will be made in terms of this authority, the maximum discount permitted will be 10% of the weighted average traded price of such securities measured over the 30 days prior to the date the price of issue is agreed between the company and the party/parties subscribing for the securities.

In terms of the JSE Listings Requirements, the approval of a 75% majority votes cast by shareholders present or represented by proxy at this AGM will be required for the authority to become effective.

As explanation for the passing of Ordinary Resolution Numbers 5 and 6, please note that clause 10.3 of the company's MOI, read with the JSE Listings Requirements, provides that shareholders may authorise directors to allot and issue the authorised but unissued shares, as the directors in their discretion think fit.

In terms of the JSE Listings Requirements, when shares are issued for cash (or the extinction of a liability, obligation or commitment, restraint, or settlement of expenses) among others, the shareholders must authorise the issue.

The authorities in ordinary resolutions 5 and 6 will be subject to the Companies Act and the JSE Listings Requirements. The aggregate number of ordinary shares able to be allotted and issued in terms of these authorities are limited as set out in the respective resolutions.

The directors consider it advantageous to obtain these authorities to enable the company to take advantage of any business opportunity that may arise in future, for example, small acquisitions which will enable the vendors to receive shares *in lieu* of cash in consideration for the assets acquired.

12. Ordinary Resolution Number 7 – 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 attached form of proxy is to be completed only by those shareholders who are:

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

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

Completed forms of proxy should be returned to the transfer secretaries, Computershare Investor Services Proprietary Limited, Ground Floor, 70 Marshall Street, Johannesburg, 2001 (PO Box 61051, Marshalltown, 2107), so as to reach them by no later than 11:00 on Tuesday, 25 March 2014.

By order of the board

R Wolmarans
Group secretary

30 January 2014

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

Form of **proxy**

To: Computershare Investor Services Proprietary Limited
70 Marshall Street, Johannesburg, 2001
(PO Box 61051, Marshalltown, 2107)
Fax +27 11 370 5390

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

Proxy form for the 29th 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 Tuesday, 25 March 2014

For use by Hudaco shareholders at the annual general meeting of Hudaco to be held on Thursday, 27 March 2014 at Hudaco's corporate offices situated at Building 9, Greenstone Hill Office Park, Emerald Boulevard, Greenstone Hill, Edenvale, Gauteng at 11:00 (the annual general meeting).

I/We

of (address)

(please print)

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

1. or failing him,

2. or failing him,

3. the chairman of the annual general meeting,

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

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

	Number of ordinary shares		
Resolution	For	Against	Abstain
Ordinary Resolution Number1: To re-elect directors retiring by rotation:			
1.1 SJ Connelly			
1.2 RT Vice			
Ordinary Resolution Number 2: To elect the director appointed since the previous AGM			
2.1 PC Baloyi			
Ordinary Resolution Number 3: To approve the re-appointment of external auditors			
Ordinary Resolution Number 4: Appointment of the members of the audit and risk management committee:			
4.1 SG Morris			
4.2 PC Baloyi			
4.3 D Naidoo			
Special Resolution Number 1: Approval of non-executive directors' remuneration			
Non-binding Resolution Number 1: Endorsement of Hudaco's remuneration policy			
Special Resolution Number 2: Authorising the provision of financial assistance to subsidiaries			
Special Resolution Number 3: General authority to repurchase shares – up to 5% of its shares			
Ordinary Resolution Number 5: General authority to directors to allot and issue authorised but unissued ordinary shares – up to 5% of the shares in issue			
Ordinary Resolution Number 6: General authority to issue shares for cash up to 5% of the shares in issue			
Ordinary Resolution Number 7: Signature of documents			

Signed at on 2014

Signature(s)

Assisted by me (where applicable)

Notes

1. Shareholders who have dematerialised their shares through a Central Securities Depository Participant (CSDP) or broker must either inform their CSDP or broker of their intention to attend the annual general meeting to provide them with the necessary authority to attend or provide the CSDP or broker with their voting instruction in terms of the custody agreement entered into between the beneficial owner and the CSDP or broker.
2. A shareholder may insert the name of a proxy or the names of two alternative proxies of the shareholder's choice in the space provided. The person whose name appears first on the form of proxy and who is present at the annual general meeting will be entitled to act as proxy to the exclusion of those whose names follow.
3. A shareholder's instructions to the proxy must be indicated by "X" in the appropriate box provided on the proxy form. Failure to comply with the above will be deemed to authorise a proxy to vote or abstain from voting at the annual general meeting as he/she deems fit in respect of all the members' votes exercisable at the meeting.
4. The completion and lodging of this form of proxy will not preclude the shareholder from attending the annual general meeting and speaking and voting thereat to the exclusion of any proxy appointed in terms hereof should the shareholder wish to do so (see note 1 above).
5. The chairman of the annual general meeting may reject or accept any proxy form that is completed and/or received, other than in accordance with these notes. Proxy forms received by way of facsimile will be acceptable.
6. Each shareholder is entitled to appoint one or more proxies (none of whom needs to be a shareholder of Hudaco) to attend, speak and vote in place of the shareholder at the annual general meeting.
7. Any alteration to this form of proxy, other than a deletion of alternatives, must be initialled by the signatories.
8. Documentary evidence establishing the authority of the person signing this form of proxy in a representative capacity must be attached to this form of proxy unless previously recorded by Hudaco.
9. Where there are joint shareholders:
   (a) Any one shareholder may sign the form of proxy;
   (b) The vote of the senior (for that purpose seniority will be determined by the order in which the names of shareholders appear in Hudaco's register of shareholders) who tenders a vote (whether in person or by proxy) will be accepted to the exclusion of the vote/s of the other joint shareholder/s.
10. Forms of proxy should be lodged with or posted to the transfer secretaries, Computershare Investor Services Proprietary Limited, 70 Marshall Street, Johannesburg, 2001 (PO Box 61051, Marshalltown, 2107), so as to reach them by no later than Tuesday, 25 March 2014 at 11:00.

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

Corporate **information**

Hudaco Industries Limited

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

Registered and business address

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

Tel +27 11 657 5000
Fax +27 11 690 0350
Email: info@hudaco.co.za
Website: www.hudaco.co.za

Secretary

Reana Wolmarans
Contact details as above

Transfer secretaries

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

Auditors

Grant Thornton
42 Wierda Road West
Wierda Valley, 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	27 March 2014
Reports and financial statements	
Preliminary report and final dividend announcement	31 January 2014
Summarised financial results and notice of annual general meeting (mailed to shareholders)	second week in February
Integrated report, including annual financial statements available on website	second week in February
Interim report and interim dividend announcement	last week in June
Dividend payment details	
Payment of final dividend	10 March 2014
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 Email	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 Email	011 923 0600 011 923 0611 info@deutz.co.za
Power transmission					
	Ambro Sales	Distributor of engineering steels, solid, round, square, hexagonal and hollow bar steel	Corner Lamp and Snapper Roads Wadeville	Tel Fax Email	011 824 4242 011 824 4864 johanm@ambro.co.za
	Astore Africa	Distributor of specialised thermoplastic pipes, fittings and Keymak PVC hose	46 Paul Smit Street Anderbolt Boksburg	Tel Fax Email	011 892 1714 011 892 2781 info@astore.co.za
	Bauer Geared Motors	Distributor of geared motors, helical gearboxes, frequency inverters and electric motors	72 Acacia Road Cnr Barbara Road Primrose, Germiston	Tel Fax Email	011 828 9715 011 828 0116 home@gbauer.co.za
	Belting Supply Services	Distributor of conveyor belting, industrial hose, fluid sealing and process control products	15 Fortune Street City Deep	Tel Fax Email	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 Email	011 864 1643 011 908 5728 pulleys@bosworth.co.za
	Dosco Precision Hydraulics	Supply and repair of hydraulic gear pumps	No 6 Impangela Road Sebenza Ext 6 Gauteng	Tel Fax Email	011 452 5843 011 609 7955 dosco@dosco.co.za
	Ernest Lowe	Manufacturer of hydraulic and pneumatic equipment	6 Skew Road Boksburg North	Tel Fax Email	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 Email	0861 347 789 011 894 5832 sales@fhs.co.za
	Gear Pump Manufacturing	Manufacture and assembly of hydraulic gear pumps	15 Moody Avenue Epping 1 Cape Town	Tel Fax Email	021 531 9330 021 531 7096 sales@gearpumps.co.za
	Joseph Grieveson	Manufacturer of ferrous and non-ferrous castings	332 Aberdare Drive Phoenix Industrial Park Phoenix, Durban	Tel Fax Email	031 507 3640 031 500 2587 sales@josgrieveson.co.za
	Midrand Special Steels	Distributor of engineering steels, solid, round, square, hexagonal and hollow bar steel	118 Sarel Baard Crescent Gateway Industrial Park Centurion	Tel Fax Email	012 661 7609 012 661 5258 johanm@ambro.co.za
	Powermite	Distributor of electric cabling, plugs, sockets, electric feeder systems and crane materials	2754 Albertina Sisulu Road Technikon Roodepoort	Tel Fax Email	011 271 0000 011 271 0265 info@powermite.co.za
	Proof Engineering	Manufacturer and distributor of mining connectors and lighting systems	28 Nagington Road Wadeville Germiston	Tel Fax Email	011 824 1146 011 824 1237 sales@proofholdings.co.za
	Three-D Agencies	Distributor of electrical cable accessories	Unit B1, Route 24 50 Herman Street Meadowdale	Tel Fax Email	011 392 3804 011 392 3812 sales@three-d.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 Email	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 Germiston	Tel Fax Email	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	27 Greenstone Place Greenstone Hill Edenvale	Tel Fax Email	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	27 Greenstone Place Greenstone Hill Edenvale	Tel Fax Email	011 401 6700 011 401 6753 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 Email	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 Email	011 397 4070 011 397 4326 info@abes.co.za
Batteries	Deltec Power Distributors	Distributor of maintenance free batteries	6 Liebenberg Street Alrode Alberton	Tel Fax Email	011 864 7930 011 908 4859 sales@deltecpower.co.za
	Specialised Battery Systems	Importers and distributors of stand by and solar batteries	23 Golden Drive Morehill Benoni	Tel Fax Email	011 425 3447 011 425 4433 sheldon@special-battery.co.za
Group head office	Hudaco Industries Hudaco Trading		Building 9 Greenstone Hill Office Park Emerald Boulevard Greenstone Hill Edenvale	Tel Fax Email 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			
Robin Briggs Chris de Kock Danie Louw Horoun Adams	Managing director Financial director Director Logistics director	Ian Robertson Knocks Ngema Shuttleworth Ntsie	Director Director Sales director	Bearings International
Ossie Carstens Avinash Ramnarain	Chief executive Financial director	Maurice Pringle Rowan Michelson	Sales director Marketing director	DEUTZ DIESELPOWER
Brian Constancon	Chief executive: Electrical power transmission and steel			
Lynette Anderson David da Silva	Chief executive Financial manager	Johan Maritz	General manager	AmbroSales
David Allman Cindy Dixon	Chief executive Managing director	Andrew Smith	Financial director	
Chris de Kock	Financial director	Knocks Ngema	General manager	BAUER
Ossie Carstens Piet Swanepoel Mark Knight Mark Vorster	Non-executive chairman Managing director Financial director Sales director	Stephan Boshoff Tanja Henderson Tom Harrison	Technical director Procurement director HR director	BELTING SUPPLY SERVICES
Mark Tarboton Gary Howell	Chief executive Financial director	Anton Dedekind	General manager	
Thomas Dunford Deon Krieger Elma Lottering	Chief executive Managing director Financial manager	Ken Barnard Jacques Lombard Trevor Dyker	Non-executive director Sales director Director	
Burtie Roberts Marie Kirsten	Managing director Operations director	Widor Grobbelaar	Financial manager	Ernest Lowe
Barry Fieldgate Reena Magan	Chief executive Financial director	Philip Venter	Operations director	FHS
Thomas Dunford Gerry Coward	Chief executive Managing director	Ken Barnard Valdor Dudley	Non-executive director Financial director	GPM
Thomas Dunford Terence Woolley	Chief executive Managing director	Vishnu Partab Megan Slater	Operations director Financial manager	
Lynette Anderson David da Silva	Chief executive Financial manager	Johan Maritz	General manager	
Mike Allnut Tommie Koeries	Chief executive Financial director	Andrew Mowat	Operations director	POWERMITE
Donovan Marks	Managing director			
Ian Downard Davina Gounden	Managing director Financial manager	Mark Jenkins	Sales director	
Rolf Lung	Chief executive	Erika van de Velde	Financial director	
Martin Peterson Arusha Asari	Chief executive Financial director	Shaun van Rooyen	Divisional director	Rutherford
Jack Edery Dave Waywell Gary Lowe	Chief executive Key accounts director Commercial director	Ingo Mutinelli Zane Greeff	Sales director Technical director	ELVEY Security Technologies
Jack Edery Brendon Hall	Non-executive chairman Chief executive	Anton Hochleutner	Sales director	PENTAGON
Paul Werner Sean Mervitz	Non-exec director Managing director	Barbara Smith Errol Baker	Financial director Non-exec director	global communications
David Allman Danie Venter	Chief executive Managing director	Jayne Kyte Juan Radley	Logistics director Financial manager	ABES
Ossie Carstens Colin Eddey Dave Roby	Non-executive chairman Managing director Export director	John Stroebel Peter Selby Mavuto Mhone	Sales director Technical director Financial manager	
Ossie Carstens Tom Orren	Non-executive chairman Managing director	Bradley Orren Sheldon Orren	Commercial director Sales director	SPECIALISED BATTERY SYSTEMS
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	Hudaco

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