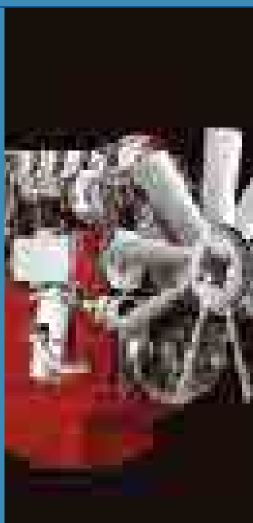
Hudaco



2007

HUDACO INDUSTRIES LIMITED

ANNUAL REPORT 2007

Hudaco

MISSION STATEMENT

Our mission is to develop and manage a sustainable business for the benefit of all stakeholders.

- We aim to produce superior returns for our shareholders by building on the base of our existing businesses and by continuously looking for growth opportunities.
- We believe that we must continue to earn our strong market shares by offering our customers quality products and ready availability.
- We establish enduring partnerships with our suppliers combining their leading world brands and our distribution strengths in southern Africa.
- We believe that a significant part of Hudaco's strength is its people who thrive in a decentralised, dynamic and challenging business environment.
- We aim to achieve these objectives in a manner which is governed by high standards of ethical conduct, sensitive to the needs of the communities in which our businesses operate and conscious of safety and environmental responsibilities.

Contents

"Value-added distribution - our core competency"

Profile

Hudaco Industries is a South African group of companies specialising in the importation and value-added distribution of selected high quality branded industrial and security products in the southern African region. The replacement market is a particular focus and the group is active in three main areas:

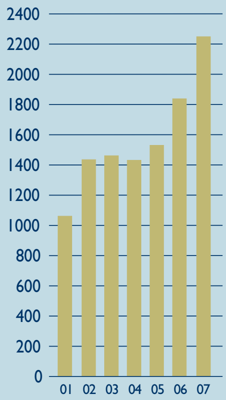
- **Bearings and Power Transmission products**
- **Powered products**
- **Security equipment**

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, application and installation training, and troubleshooting combined with ready availability and a fair price. A network of specialised branches and independent distributors throughout southern Africa serves the industrial replacement part markets and supplies original equipment to the security industry.

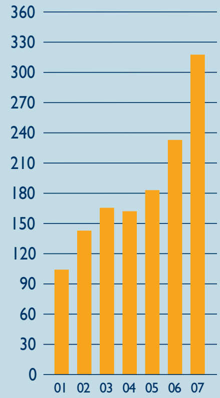
RESULTS IN BRIEF

30 November 2007	2007	2006	% change
Turnover (Rm)	**2 227**	1 838	21
Operating profit (Rm)	**318**	234	36
Normalised headline earnings (Rm)	**226**	159	42
Attributable earnings (Rm)	**183**	150	22
Normalised headline earnings per share (cents)	**750**	533	41
Dividends per share (cents)	**260**	190	37
Special dividend per share (cents)	**330**		

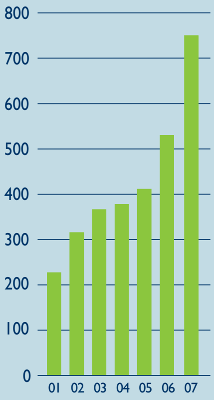
Turnover Rm



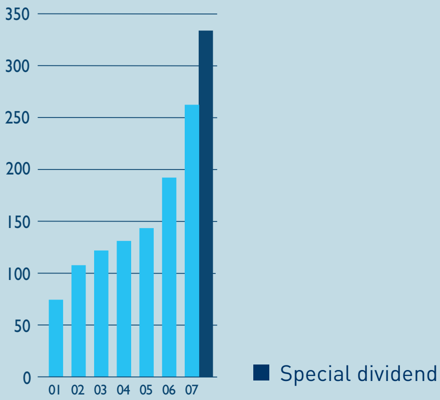
Operating profit Rm



Normalised headline earnings per share cents



Distributions per share cents



GROUP AT A GLANCE

Bearings and Power Transmission products

Principal activity

The distribution of leading brands of anti-friction bearings, geared motors, belting, chain, hydraulics, pneumatics, seals, variable speed drives, clutches, electrical cabling, plugs and related products to the manufacturing, mining, agricultural and automotive aftermarkets.

Principal businesses

ABES Technoseal
Bauer Geared Motors
Bearings International
Belting Supply Services
Bosworth
Ernest Lowe
Powermite
Varispeed

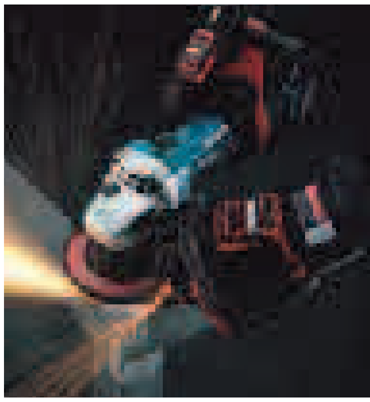
Powered products

Principal activity

The distribution of power tools and outboard motors and the marketing and servicing of Deutz diesel engines and spares to the construction, mining, manufacturing, marine, agricultural and retail markets.

Principal businesses

Deutz Dieselpower
(70% owned)
Rutherford



Security equipment

Principal activity

Distributor of intruder detection, closed circuit television, access control and fibre optic equipment.

Principal business

Elvey Security Technologies
(South Africa and United Kingdom)

Bearings and Power Transmission products

Rm	2007	2006
Turnover	**1 273**	1 049
Operating profit	**173**	116
Average net operating assets	**446**	387
Number of employees	**1 586**	1 501

Powered products

Rm	2007	2006
Turnover	**589**	477
Operating profit	**124**	98
Average net operating assets	**100**	79
Number of employees	**344**	332

Security equipment

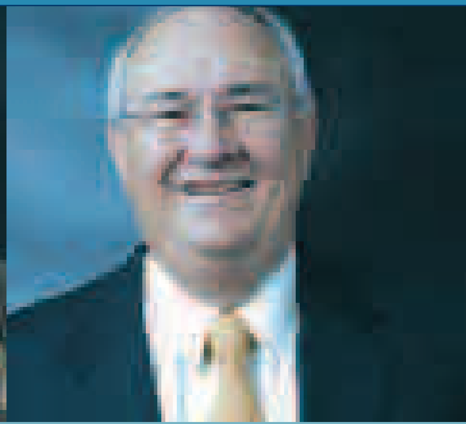
Rm	2007	2006
Turnover	**365**	313
Operating profit	**44**	36
Average net operating assets	**80**	77
Number of employees	**199**	174

Group

Rm	Head office and intergroup 2007	Head office and intergroup 2006	Group 2007	Group 2006
Turnover		(1)	**2 227**	1 838
Operating profit	**(23)**	(16)	**318**	234
Average net operating assets	**(14)**	2	**612**	545
Number of employees	**20**	22	**2 149**	2 029

MEMBERS OF THE BOARD AND EXECUTIVE COMMITTEE



Non-executive directors

Peter Campbell (70)
Independent non-executive chairman
CA(SA) AMP Harvard

Peter was formerly on the board of Nampak Limited. He was deputy chairman until 1997 and then non-executive director until he retired from this board in 2007. He is a non-executive director of Delta Electrical Industries Limited. He joined the board of Hudaco in 1997.

John Gibbon (67)
Independent non-executive director
CA(SA)

John qualified as a chartered accountant with PricewaterhouseCoopers in 1963 and retired as a senior partner in 2001. He is a non-executive director and chairman of the audit committee of four listed companies. He joined the board in 2001.

Nene Molefi (42)
Non-executive director
BSocSc

Nene worked for Eskom for 10 years, during which time she was seconded to the Department of Labour as head of human resources. As executive director of the City of Cape Town, she oversaw its transformation initiatives. She is now managing director and sole owner of Mandate Molefi, human resource consultants and a BEE shareholder in Hudaco Trading. She joined the board in 2002.

Royden Vice (60)
Independent non-executive director
BCom CA(SA)

Royden worked for the BOC group in RSA and UK from 1975 to 2001 and ended his career as CEO of Industrial and Special Products whilst serving on the management board. In 2002 he joined Waco International as CEO. He is a director of Murray & Roberts Holdings, chairman of the Nelson Mandela Metropolitan University Development Trust and a governor of Rhodes University. He joined the board in 2007.

Executive committee

Stephen Connelly* (56) Group chief executive ACMA 25 years' service
Refer to page 5 for CV.

Bob Cameron-Smith (59) CEO Rutherford 34 years' service
Bob joined Vickers Instruments (now part of Rutherford) in March 1973 and was appointed managing director in 1978. Shortly after the takeover of the Valard group in 1992 he was appointed chief executive of Rutherford.

Leon Coetzer (53) CEO Deutz Dieselpower 18 years' service
Leon joined Deutz Dieselpower in 1989 as a project manager. In 1996 he was appointed technical director and given responsibility for engine sales. He was appointed chief executive in 1999.

Gilbert Da Silva (60) CEO Mechanical Power Transmission ACIS 37 years' service
Gilbert joined Hudaco in 1987 when it purchased the listed Frencorp Limited where he was the financial director. He served as financial director of the Conveyor and Transmission division until 2001 when he was appointed to his current position. He is responsible for Abes Technoseal, Belting Supply Services, Bosworth and Bestobell.

Graham Dunford (43) CEO Electrical Power Transmission 19 years' service
Graham joined Hudaco in 2001 when it purchased Bauer Geared Motors where he was the managing director. He was appointed to his current position in 2005 and is responsible for Ampco, Bauer, Varispeed and Powermite.

Executive directors

Stephen Connelly (56)
Group chief executive
ACMA
25 years' service

Stephen immigrated to South Africa in 1976. He joined Valard Limited in 1982 as financial director and was appointed managing director in 1987. He became chief executive of Hudaco in 1992 after Hudaco's acquisition of the Valard group.

Graham Gardiner (61)
CEO Bearings and Power Transmission products division
37 years' service

Graham joined Hudaco in 1987 when it purchased the listed Frencorp Limited where he was the chief executive. He was appointed to the Hudaco board in 1988 and to the position of divisional chief executive of the Bearings and Power Transmission products division in 2001.

Peter Poole (60)
Group financial director
BCom CA(SA)
20 years' service

Peter qualified as a chartered accountant with Deloitte in 1970. He left the firm in 1980, after four years as a partner in Johannesburg and Harare, to join a family manufacturing business in Pretoria. He was appointed group financial director of Hudaco in 1987.

Jack Edery (56) CEO Elvey Security Technologies BCompt(Hons) CA(SA) 11 years' service
Jack qualified as a chartered accountant with KPMG in 1981. In 1987 he joined Melcorp as financial director. He was appointed financial director of Elvey in 1996 and CEO in 2003.

Graham Gardiner* (61) CEO Bearings and Power Transmission products division 37 years' service
Refer above for CV.

Mzolisi Nkumanda (43) Group secretary BCom MBL
Mzolisi joined Hudaco in August 2007 from South African Airways where he was head of group taxation. Prior to this he was a tax consultant with large accounting firms and in commerce.

Tony Patten (53) CEO Bearings International 25 years' service
Tony began his career at Stewarts & Lloyds in 1974. He joined Hudaco as a branch manager at Circle Pumps, Pinetown in 1982. Since then he has served as general manager of The Roller Chain Company and Consolidated Bearing Company (both now part of Bearings International) before being appointed chief executive of Bearings International in 2001.

Peter Poole* (60) Group financial director BCom CA(SA) 20 years' service
Refer above for CV.

*Executive directors
Service is with Hudaco and businesses acquired.

HISTORY OF HUDACO INDUSTRIES

Hudaco Industries derives its name from and traces its existence to Hubert Davies and Company, whose history and development have been an integral part of the economic development of southern Africa for the past 116 years.

The founder, J Hubert Davies, an electrical engineer, came to South Africa in 1889 as a consulting engineer. He started his own business in Johannesburg in 1891, five years after the discovery of gold on the Witwatersrand. He was personally responsible for specifying and organising the supply of equipment for the erection of many electrical and mechanical engineering plants in the various towns and mines of the southern African region.

In 1897 he established himself in Simmonds Street with a staff complement of 70. By the turn of the century the business had become a major supplier of expertise and equipment to customers in mining and mining support, town services, construction and power generation on the gold-rich Witwatersrand and further afield. The business was converted into a private company in 1917, allowing senior managers to become shareholders and directors. The company continued to grow in size and diversity and in September 1938 Hubert Davies and Company Limited listed on the Johannesburg Stock Exchange. In the early part of the century the building housing the headquarters of the business was named Hudaco House – the first known use of the name Hudaco. Following tradition, when the headquarters moved to Elandsfontein in the 1970s the complex was named Hudaco Park.

In 1974 Blue Circle Limited, a United Kingdom industrial group, acquired a substantial interest in the company and in 1977 it became a wholly owned subsidiary and delisted from the stock exchange. During the 1970s Hubert Davies expanded its product offering and its branch network to cover the whole of South Africa and all countries of the subcontinent. In 1976 a strategic decision was made to specialise by product and activity to provide better customer service and achieve improved market penetration. This decision also saw the introduction of the company's existing management philosophy of decentralisation of decision-making and responsibility.

In 1981 a further step in this direction saw the establishment of the industrial distribution business of Hubert Davies as a separate, autonomous subsidiary under the name Hudaco Industries.

In May 1984 the management of the business, with banks as partners, acquired control of Hudaco Industries from Blue Circle in, what was until then, the largest South African private equity leveraged buy-out. 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. Since then the group has made several large acquisitions, including listed companies Frencorp, Valard and Elsec, but has stayed faithful to its roots as an industrial product distribution business. Today the group employs more than 2 100 people, its market capitalisation is R2,5 billion and its shareholders include many of the blue-chip players in the retirement investment industry.

SEVEN-YEAR REVIEW

	Prepared under IFRS			Prepared under GAAP			
R million	**2007**	2006	2005	2004	2003	2002	2001
Group income statement							
Turnover	**2 227**	1 838	1 530	1 431	1 461	1 435	1 061
Operating profit	**318**	234	181	162	163	142	100
Net finance revenue and dividends received	**5**	7	4	6	(1)	(8)	(4)
Profit before taxation	**323**	241	185	168	162	134	96
Taxation	**83**	76	59	54	52	44	28
Profit after taxation	**240**	165	126	114	110	90	68
Share of associate company profits						2	2
Minority interest	**13**	6	5	5	5	3	7
Normalised earnings	**227**	159	121	109	105	89	63
Exceptional/capital items – net	**44**	9	(1)	20	5	5	4
Attributable earnings	**183**	150	122	89	100	84	59
Shares in issue 000 (weighted average)	**30 178**	29 870	29 592	29 289	28 776	28 264	27 892
Earnings per share (cents)							
– normalised headline	**750**	533	409	371	365	316	224
– basic	**606**	502	413	303	347	297	210
Distributions per share (cents)	**260**	190	144	128	122	105	75
Special dividend per share (cents)	**330**						
Group balance sheet							
Property, plant and equipment	**74**	67	62	43	44	45	40
Goodwill	**77**	57	64	43	56	47	20
Deferred taxation	**1**	1	2	16	15	17	4
Inventories	**544**	452	375	285	320	315	260
Accounts receivable	**399**	355	279	245	239	251	226
Accounts payable	**(435)**	(382)	(296)	(268)	(248)	(250)	(235)
Taxation	**(30)**	(24)	(13)	(25)	(37)	(46)	(29)
Net operating assets	**630**	526	473	339	389	379	286
Investment	**2 181**						25
Net cash	**317**	238	187	207	114	56	64
Employment of capital	**3 128**	764	660	546	503	435	375
Shareholders' equity	**807**	728	612	508	458	396	333
Minority interest	**29**	22	24	26	24	20	38
Total shareholders' funds	**836**	750	636	534	482	416	371
Shareholders for special dividend	**101**						
Subordinated debenture	**2 181**						
Amounts due to vendors on acquisitions	**10**	14	24	12	21	19	4
Total capital employed	**3 128**	764	660	546	503	435	375
Group cash flow							
Cash generated from trading	**334**	248	195	175	177	160	110
Increase in working capital	**(71)**	(62)	(62)	36	(2)	(56)	22
Cash generated from operating activities	**263**	186	133	211	175	104	132
Net finance revenue	**2**	8	5	6	(1)	(7)	(4)
Taxation paid	**(81)**	(65)	(63)	(63)	(56)	(41)	(18)
Cash flow from operations	**184**	129	75	154	118	56	110
Cash distributions to shareholders	**(67)**	(54)	(42)	(39)	(33)	(45)	(17)
Retained from operating activities	**117**	75	33	115	85	11	93
Net investment in							
– preference shares	**(2 181)**						
– new businesses etc	**(35)**	(11)	(47)	(11)	(17)	(3)	(49)
– property, plant and equipment	**(17)**	(16)	(9)	(14)	(12)	(17)	(10)
Net cash invested	**(2 233)**	(27)	(56)	(25)	(29)	(20)	(59)
Cash applied after investments	**(2 116)**	48	(23)	90	56	(9)	34
Increase in shareholder funding	**14**	3	3	3	2	1	1
Debenture issued	**2 181**						
Increase in net cash	**79**	51	(20)	93	58	(8)	35

CHAIRMAN'S REPORT

Peter Campbell

"...consumer spending led growth has now given way to economic growth generated by public and private sector investment spending..."

2007 results

Hudaco's financial results this year are very pleasing. Total sales, at R2,23 billion, are 21% up on last year, whilst operating profit is up 36% to R318 million. Normalised headline earnings per share increased 41% to 750 cents. A final dividend of 195 cents per share has been declared, bringing total normal dividends declared this year to 260 cents per share (last year: 190 cents), an increase of 37%. The group's strong cash flow and the lack of appropriate investment opportunities resulted in the declaration of a special dividend of 330 cents paid in December 2007, bringing total dividends to 590 cents.

In Hudaco's markets, volume sales of bearings, power transmission products and diesel engines were well up on 2006, benefiting from investment spending by mines and to a lesser extent, government and the parastatals. Sales of power tools and security equipment were also up despite the interest rate increases of the past two years dampening consumer spending on automotive, housing and leisure products.

The balance sheet is in particularly good shape. The group has R317 million cash on hand at year end (last year: R238 million). Of this amount, R100 million is earmarked for the special dividend paid in December 2007 and R95 million has been committed to the vendors of Astore, a new business acquired in January 2008. During the year an additional R104 million was invested in net operating assets, of which R71 million was in working capital, mainly inventory, and is in line with the increase in activity levels this year. The return on net operating assets (RONA) in 2007 was 52%, up on the 43% return in 2006 and well above the internal target of 30% and our pre-tax cost of capital, which is approximately 20%.

A comprehensive commentary on the financial results is provided in the chief executive's report.

Economic environment

Hudaco is engaged in the business of importing and distributing industrial consumable products in the southern African region. About half of its business is derived from the manufacturing and mining sectors with the balance mainly from construction, the automotive aftermarket and security industries. The year's sales growth of 21% is a function of two important variables: the growth in volume sales and, because we are predominately an importer, changes in the Rand rate of exchange.

South Africa has experienced a period of strong economic growth over the past four years. Initially, this growth was driven by consumer spending fuelled by reductions in personal income tax, low interest rates, government grants to the old and young, and increased spending by the emerging black middle class. Hudaco has exposure to consumer spending through its power tool, outboard motor and intruder detection (security) businesses.

Increases in interest rates over the past two years have acted to dull consumer spending somewhat and the strong growth in that part of the economy has given way to economic growth generated by public and private sector investment spending; in mining projects, electricity generation and infrastructural upgrades and expansion – the primary and secondary sectors of the economy. Although investment in mining projects is well underway, particularly in platinum mining, investment in other areas is only just beginning. South Africa has the capital and the skills (although technical skills are in increasingly short supply) to maintain a steady momentum of investment and, barring unforeseen shocks, we think that the healthy economic growth we are seeing in these areas can be sustained for many years. Growth in these sectors of the economy will result in meaningful job creation, particularly for the major part of South Africa's unemployed population, which consists of less skilled workers. Job creation will, in turn, support consumer spending. Hudaco has already started to feel the benefits of this investment-led economic growth through its large exposure to industries and mines operating in the primary and secondary sectors of the economy.

The government's sound macro-economic policies of the past 10 years deserve much credit for the country's current robust economy. However, although the economy is performing well, there are serious problems in service delivery in key areas such as education, health, policing and justice, and more recently electricity generation. The need to transform the public sector was understandable given the need to address the imbalances of the past but this appears to have been done without regard for the consequences of a collapse in service delivery. The cost of providing these services privately places an unnecessary restrictive burden on the entire economy and populace and is starting to affect the country's growth prospects. Competence should by now be the government's primary criteria for making appointments in these critical areas.

Being predominately an importer, our ability to pass the impact of a rising local inflation rate on to our customers depends on the Rand weakening by the inflation differential between South Africa and its trading partners. However, the Rand has been relatively strong during the past five years, putting Hudaco in a margin squeeze for much of that time. Rand weakness in the middle of 2006 allowed Hudaco to increase prices generally for the first time in four years, relieving the situation somewhat.

Business evaluation and strategy

We regard Hudaco's business as relatively low risk – core demand for our product range is relatively stable, being influenced more by GDP activity than GDFI. Some businesses in the Bearings and Power Transmission division benefit directly from GDFI spend – this was particularly noticeable this year and provided a welcome boost to sales. As already discussed, movements in exchange rates affect the prices we charge and therefore Rand sales. As gross margins and expenses as a percentage of sales are fairly constant it follows that exchange rates can have a significant influence on the operating profit margin. Most of our competitors are also importers so we are not placed at any particular competitive advantage or disadvantage affecting our market share when the Rand strengthens or weakens. Contrary to popular opinion, our biggest currency risk is a prolonged period of Rand strength, such as the one we experienced from 2002 to the middle of 2006, when it was difficult to increase prices to cover our rising local cost base.

Hudaco's businesses do not require significant investment in property or plant and equipment and the operating balance sheet consists mainly of working capital. Since most of the properties the group occupies are rented, it has a large commitment to future rentals that has grown substantially this year as leases were renegotiated. Key financial characteristics are high internal rates of return and 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. Surplus cash will be returned to shareholders - in 2007 a special dividend of R3,30 per share was declared through which R100 million was returned to shareholders in December 2007.

The group is committed to acquisitive growth and has the resources to achieve it. However finding opportunities to make meaningful investments in entirely new businesses, within what we regard as our core competency, "value added distribution", has become more difficult, particularly now that the economy is growing. There is vigorous competition for quality assets often from private equity players who are able to pay higher prices and are seemingly not burdened by the effects of IFRS accounting. Accounting rules such as IFRS 3, which require intangibles in an acquisition to be valued and written off in headline earnings over relatively short periods, make it difficult to do transactions that improve earnings other than in the longer term.

The group looked at several opportunities in 2007 and although in many cases valuations did not justify a purchase there were two successes. In July 2007 the group acquired Bougicord, an assembler and distributer of ignition cables for the automotive aftermarket. The business generates sales of R42 million per annum and operating profits of R8 million. The purchase price was R27 million. During 2008 Bougicord and Hudaco's two other automotive product distributors, Abes (seals) and HBC (clutches) will be merged into a single set of premises under one management team. Subsequent to year-end, agreement was reached for the purchase of Astore Africa, an importer and distributor of specialised piping to South Africa's mining and manufacturing sectors. The business generates sales of R150 million per annum and the purchase price is R115 million, with R95 million paid up front and the balance over a two year earn-out period. Due to the abovementioned requirements of IFRS accounting, neither of the above acquisitions will enhance earnings significantly in the short term although they will make a useful contribution to the group's future cash flow.

Investing in our own businesses during this time of high economic growth yields very attractive returns and a high priority is being placed on ensuring that every growth opportunity is exploited.

Black economic empowerment

During the year the group completed a complex transaction to achieve its objective of increasing the deemed BEE ownership in its principal subsidiary, Hudaco Trading (Pty) Ltd, from 10% to 25%. Core to the transaction was the restructure of the group into Hudaco Trading, which raised R2,2 billion in subordinated debentures to acquire nearly 90% of the group's operations in August 2007 (Hudaco Trading acquired all the group's South African businesses except DDPower, the treasury shares and R55 million in cash). This facilitated the subsequent issue of 15% of the shares in Hudaco Trading to our three BEE partners at 10c a share, which meant that they did not need to raise their own funding to acquire a substantial and immediate beneficial ownership in the group.

The 15% direct BEE shareholding in Hudaco Trading gives it a deemed 25% BEE shareholding as Hudaco Industries Limited, the listed entity, is accorded a 10% BEE shareholding by virtue of its large number of mandated shareholders (pension funds and the like) and this 10% flows through to Hudaco Trading. The BEE ownership is designed to remain at Hudaco Trading level, as there are no rights to convert any of the shares in Hudaco Trading to those in the listed entity.

CHAIRMAN'S REPORT

The group was obliged to invest the proceeds from the sale of the businesses to Hudaco Trading in a manner acceptable to the debenture holders (brokered by Morgan Stanley), as this investment serves to provide them with security. It was agreed that the R2,2 billion would be invested in preference shares issued by the Cadiz group and complex arrangements are in place to protect the capital invested.

Shareholders in Hudaco have effectively sold 15% of the growth in Hudaco Trading from 2006 to the BEE shareholders in perpetuity for R300. This has been valued as a share-based payment to obtain BEE shareholder status at R44 million and has been expensed this year.

The direct BEE shareholders in Hudaco Trading own 15% of this company and consist of:

- A Hudaco Trading staff education trust (5%) which will empower current and future black employees, their spouses and children through education. Scholarships, bursaries and study loans will be granted to eligible applicants, with at least 50% of benefits to be distributed to black women. Divided income will start flowing into the trusts in 2008, with the first grants given in the 2009 academic year.

- A Hudaco broad-based BEE foundation (5%) whose sole objective is to undertake and/or fund broad-based public benefit activities for the benefit of black people.

- The Ulwazi Consortium of black entrepreneurs (5%) comprising four black businessmen and two black businesswomen who have experience in engineering-related fields, areas of relevance to Hudaco's business. They have been colleagues for 20 years and one of its members, Nene Molefi, has been a non-executive director of Hudaco for five years. Hudaco believes their knowledge of the industry and their wide range of contacts will bring value to Hudaco to grow its business.

We take this opportunity to welcome our new shareholders to the group and look forward to working closely with the Ulwazi Consortium to take advantage of the many opportunities that will come our way as the economy expands.

Our businesses are now working on the balance of the DTI's codes. The codes are complex and data collection is taking longer than we had initially expected. Each business within the group will determine its target score (including the cost of achieving such a score) and put in place a timetable for achievement.

Appreciation and farewell

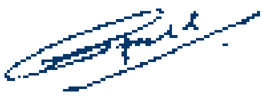
2007 was a record year for Hudaco and it also marks the end of my tenure as chairman as I have reached the age of 70. It has been an enjoyable and challenging 10 years and I step down as chairman in the knowledge that the group is well placed to take advantage of the many opportunities that lie ahead. I thank my colleagues on the board for their support and advice during my term as chairman and pay tribute to the executive and senior management of the group led by Stephen Connelly for their achievements. I also take this opportunity to thank all employees for their efforts and our suppliers and customers for their ongoing support.

I plan to step down from the chair after the March 2008 AGM when Royden Vice, who joined the board in June 2007, will take over. I wish him well. I will remain on the board as a non-executive director to provide continuity until the 2009 AGM.

Prospects

The group has good medium term prospects. Spending on South Africa's infrastructure is now underway and high commodity prices support continued investment in mining projects. Although the effect of electricity supply interruptions on economic growth is not known and will not be known for some time, investment spending looks set to continue for some years into the future. This will benefit local manufacturers and construction companies, key customers for Hudaco's product offering. Growth in the consumer side of the economy appears to be weakening but with fixed investment comes job creation that will ultimately support activity in this sector.

Using normalised 2007 earnings per share of R7,50 as the base, earnings growth in 2008 is unlikely to match the 41% growth enjoyed this year. Weaker consumer spending will impact on our outboard motor and security product businesses. However, unless electricity supply problems materially disrupt business activities, expected strong volume sales growth in our bearings and transmission and diesel engine businesses will result in another successful year.



PL Campbell
Chairman

31 January 2008

CHIEF EXECUTIVE'S REVIEW OF OPERATIONS

"We believe that we must continue to earn our strong market shares by providing our customers with products and services of superior quality."

Stephen Connelly

Business model and management philosophy

The Hudaco group sources from more than 1 500 suppliers located in all parts of the industrialised world. It supplies 20 000 customers through more than 100 physical locations mainly in South and southern Africa and carries 250 000 line items in stock. Because the main business is the supply of replacement parts to industrial customers, overall demand is relatively inelastic and line item sales predictability is low. Supplier lead-times can range from three months to well over one year in extreme cases so stockholding is the biggest item in Hudaco's working capital. A key competitive advantage is the ability to offer availability on demand.

A typical sale is a relatively low-value transaction. Having the item in stock is a must but value can be added to the sale in a number of ways, including technical application advice and training, preventative maintenance inspections and management of customers' procurement cycles. A high-quality branded product offering ensures repeat business, allowing us to develop lasting relationships with customers and enabling us to utilise our own and our suppliers' skills to improve customers' productivity levels.

Given these characteristics, Hudaco has developed a management style that has proven successful over many years. Decentralising management by putting decision-making responsibility into the hands of managers at all levels of the organisation is a key Hudaco philosophy. Delegating authority and responsibility empowers employees and allows them to respond quickly to customers' requirements. It instils self-discipline, and encourages and reveals leadership and innovation. In return, high standards of performance and accurate and comprehensive reporting are expected as a matter of course.

The Hudaco head office makes investment and disinvestment decisions, including investments in new businesses, by managing the procurement and allocation of group financial resources. It appoints key executives, initiates tactical and strategic moves or advises on them, approves business unit plans, facilitates sharing of skills and experiences, and manages investor relations. It deliberately manages only a few centralised services. It also provides cohesion and a sense of commonality to the whole.

2007 results

A detailed explanation of Hudaco's financial objectives and a review of performance against those objectives are contained in the financial review on page 23.

Sales of R2,2 billion for the year are up 21% on 2006. We estimate that half of this increase was volume and the other half price. All businesses achieved an increase in volume sales. We are now seeing more frequent price increases from overseas suppliers due to increases in the prices of raw materials and particularly strong current worldwide demand. This is reversing the trend of the previous two decades of price decreases from suppliers as they passed on manufacturing efficiency gains.

In our Bearings and Transmission division, sales increased 21% and operating profit showed an excellent increase of 49%. Trading conditions in the division were better than last year with volume sales well up. There was sustained quoting on capital project work for mines, civil engineering projects and manufacturers during the year. Hudaco businesses that have an order book saw further backorder growth, which bodes well for sales in 2008.

CHIEF EXECUTIVE'S REVIEW OF OPERATIONS

"Delegating authority and responsibility allows employees to respond quickly to customers' requirements, instils self-discipline, and encourages and reveals leadership and innovation."

In the Powered Products division sales increased 24% and operating profit 26%. DDPower had an excellent year, with strong demand for diesel engines mainly for platinum mining and power generation applications. In Rutherford, sales of power tools increased, but outboard motor sales declined in response to the interest rate increases of the past few years and the new National Credit Act making credit harder to obtain.

In the Security Equipment division sales increased 17% and operating profit increased 23%. Trading conditions were satisfactory, with volume sales increasing by double digits in South Africa but declining in the UK as two loss-making branches were closed.

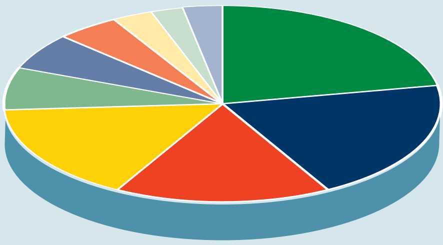
The group gross profit margin, at 37,9% was the same as last year, reflecting our success in translating product cost increases into selling prices. Although expenses as a percentage of sales reduced from 25,2% to 23,6%, above-inflationary pressure is again being felt on rental costs as leases are renewed because of the increase in commercial property values and on salaries, particularly of technically skilled personnel as their scarcity grows. The group head count also grew by 6% to cope with the increased volumes being sold. Group operating profit rose by 36% or R83 million to R318 million, with an operating margin to sales of 14,3% (last year 12,7%).

The introduction of direct BEE shareholders to the group through the issue of 15% of the share capital in our principal operating subsidiary, Hudaco Trading (Pty) Ltd, allowed us to meet our BEE ownership objectives, but it has changed the structure of our balance sheet and income statement dramatically. Hudaco Trading issued R2,2 billion in subordinated debentures on 1 August 2007 at a coupon of 10,7% nacq, and now has a 15% minority shareholder. The group also invested R2,2 billion in redeemable preference shares at a coupon of 9,2% nacq on 1 August 2007.

As a consequence, interest of R77 million was paid on the debentures and the group accounted for the once-off cost to introduce the BEE shareholders of R44 million computed as a share based payment. Preference share dividends of R66 million were received. The minority shareholders' share of normalised earnings in Hudaco Trading for the four months was R1 million and their share of the share based payment was R6,6 million.

This means that operating profits of R318 million carried the R44 million BEE shareholdings charge and increased by a net R1 million from dividends and interest received less interest paid, to generate a profit before tax of R275 million. The tax charge was R86 million, resulting in earnings of R189 million, of which R183 million is attributable to shareholders and R6 million to minorities. The effective tax rate appears to be 31% (2006 – 33%) but this needs to be unpacked. The cost to introduce BEE shareholdings is not tax deductible and the preference dividends are not taxed, therefore the tax charge is R86 million on R253 million or 34%, of which 29% is normal tax and 5% STC.

Sales by market sector %



	2007
Manufacturing	22
Mining	21
Security SA and UK	16
Wholesale and retail	14
Automotive	7
Exports	7
Construction	5
Public sector	3
Other	3
Agriculture	2

Headline earnings are R182 million, up 15% on 2006 and HEPS are also up 14% to 604 cents. However, normalised headline earnings per share, which excludes the cost to introduce BEE shareholders and STC on the special dividend, was 750 cents, up 41% on the 533 cents per share of last year. The final dividend has been increased to 195 cents (last year: 140 cents), which, with the interim dividend of 65 cents, brings total normal dividends this year to 260 cents per share (last year: 190 cents), an increase of 37% and covered 2,9 times by normalised earnings per share. A special dividend of 330 cents per share amounting to R100 million was declared during the financial year and paid in December 2007.

The balance sheet is healthy. Working capital (inventories, accounts receivable and accounts payable), at R508 million, is R84 million or 20% above 2006 levels. The increase results from normal business demands as volume sales increased. Cash on hand at year-end is R317 million, up R79 million on last year, and R195 million of this amount is committed to the special dividend and the acquisition of Astore Africa. Cash flow per share of 563 cents is 31% up on the previous year. Net asset value per share is R26,23.

The return on net operating assets in 2007 was a record 52%, an increase on last year's 43%, well above our pre-tax cost of capital, which would be about 20% (assuming conservative balance sheet gearing) and again well above our target of 30%.

Acquisitions and cash resources

The group has long been committed to growth by acquisition. However, over the last years we have generated more cash than we have invested – in acquisitions or in our own businesses to support growth. For this reason a special dividend of 330 cents amounting to R100 million was declared in the 2007 financial year and paid in December 2007. The group ended the year with significant financial resources to support its acquisition strategy. Of the cash on hand of R317 million, R100 million was committed to the special dividend and R95 million to the acquisition of Astore Africa. The group has an ability to borrow about R400 million in senior debt and still leave itself conservatively geared.

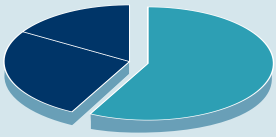
Subsequent to year-end, agreement was reached for the purchase of Astore Africa, an importer and distributor of specialised piping to South Africa's mining and manufacturing sectors. The business generates sales of R150 million per annum and the purchase price is R115 million, with R95 million paid up front and the balance over a two year earn-out period.

CHIEF EXECUTIVE'S REVIEW OF OPERATIONS

Bearings and Power Transmission products division

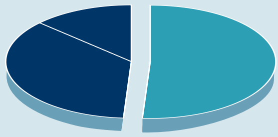
	2007	2006
Sales (Rm)	**1 273**	1 049
Operating profit (Rm)	**173**	116
Average NOA (Rm)	**446**	387
Number of employees	**1 586**	1 501

SALES

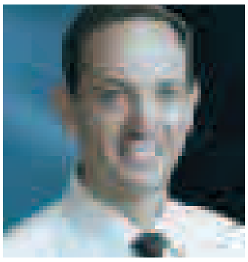


Contribution to group sales 57%

OPERATING PROFIT



Contribution to operating profit 51%



Graham Gardiner
CEO Bearings and Power Transmission division

Gilbert Da Silva
CEO Mechanical Power Transmission

Graham Dunford
CEO Electrical Power Transmission

Tony Patten
CEO Bearings International

Principal businesses

Bearings International

Mechanical power transmission

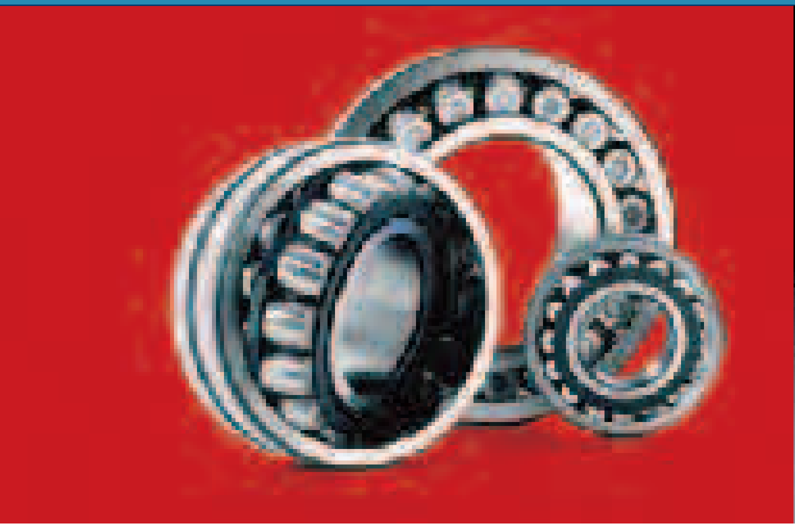
Abes Technoseal
Belting Supply Services
Bosworth
Ernest Lowe

Electrical power transmission

Ampco
Bauer Geared Motors
Powermite
Varispeed

Principal markets served %

Manufacturing	34
Mining	24
Automotive	13
Wholesale and retail	11
Total	82



This division is a leading South African distributor of branded bearings and power transmission products. A complete range of imported bearings, seals, transmission and conveyor chains, couplings, clutches, geared motors, electric motors, variable speed drives, specialised plugs and sockets, non-standard electrical cables and soft starters is offered to the mining, manufacturing, automotive and agricultural markets. Standard products are distributed by our flagship industrial distribution business Bearings International, which has a comprehensive distribution network covering southern Africa, including more than 50 owned branches. Products are sourced from all over the world, with Chinese and Indian manufacturers steadily increasing as a source of supply. Where customers require more specialised technical advice or access to special or modified stock items they use the services of our independently staffed and stocked mechanical or electrical transmission businesses.

The division posted very pleasing results this year. Not only was there double digit growth in volume sales but requests for quotes for project business were sustained at high levels throughout the year, which bodes well for sales in 2008. Not many of our businesses have a backorder book, but those that do benefited from good growth again this year. There was reasonably good demand from customers exposed to the local consumer market, whilst sales to local manufacturers picked up momentum as the year progressed. Demand from mines was again higher overall as reduced business from gold mines (year on year gold production was down again in 2007) was more than offset by increased demand from platinum, iron ore and coal mining. Demand from the automotive aftermarket was good and is expected to continue growing as high levels of new car sales reach an age where owners start using spare parts supplied by our businesses. The sharply weaker Rand in the middle of 2006 and the resulting price increases impacted beneficially on profits in the second half of 2006 and the first half of 2007, although it needs to be borne in mind that from a cash flow point of view, this has all been invested in the higher cost of stockholding. These generally favourable trading conditions translated into a significantly better financial performance in 2007. Sales increased 21% to R1,3 billion and operating profit increased 49% to R173 million. The division's return on net operating assets (RONA) was 38,8%.

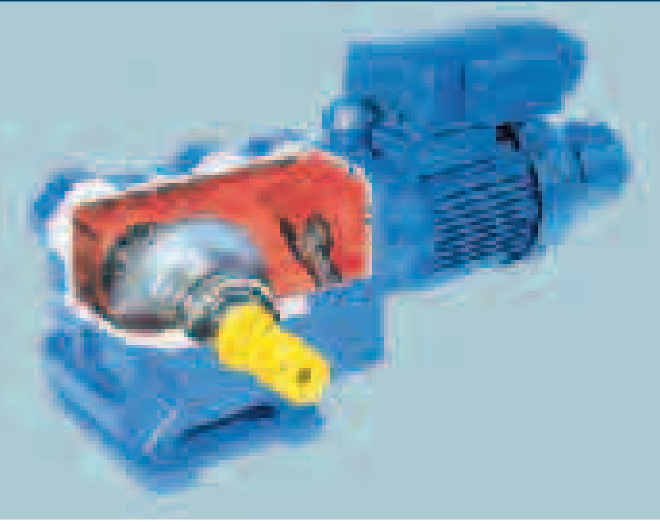
The healthy order book, sustained enquiry levels and the general level of current activity in the market gives optimism that another increase in sales and operating profit can be achieved in the division in 2008.

Bearings International (BI) – Hudaco's largest individual business, with more than 50 branches countrywide, produced a significantly better financial performance in 2007. Three new branches were opened in the year and good volume sales growth was achieved in chain, bearings and electric motors. Several new multi-year supply contracts were secured. The worldwide bearing shortage is worsening, which is forcing BI to hold more stock and is putting pressure on returns. There is no doubt that BI, with INA-FAG, its principal bearing supplier, is regaining market share lost over the last few years. Koyo, previously our main industrial bearing source, remains a significant complementary supplier and with them we are making significant inroads into the automotive bearings market.

Recognising the technical skills shortage and in line with its proactive transformation agenda BI continues to invest heavily in critical employee skills training and its accredited customer training programme. Enterprise development is another critical focus area. Specialised training is offered to customers to address their skills shortages regarding the correct handling, fitment, maintenance and replacement of bearings and mechanical drive components.

It is believed that the business will do well again next year as investment in mining and the national infrastructure gathers pace.

CHIEF EXECUTIVE'S REVIEW OF OPERATIONS



Electrical Power Transmission – Bauer, Varispeed and the Powermite group are Hudaco's specialised distributors of electrical power transmission products, including geared and electric motors and products that control, monitor and regulate the speed of standard AC motors. Powermite's product range includes specialised cables, plugs, sockets, festoon systems, current collectors and cable-reeling equipment.

Hudaco's first move into electrical power transmission occurred when it purchased Bauer in 2002. Shortly thereafter a decision was made to expand the group's exposure in this area and this year the electrical transmission business contributed over one third of this division's operating profit. The Powermite group performed very well in its third year with Hudaco, with both sales and profits recording very healthy growth over 2006. The business increased sales in all its main product groups mainly due to the positive growth experienced in its various markets. Particularly impressive increases were recorded in specialised cable product lines primarily through a greater and broader stockholding. The three-year earn-out contract with Siegfried Roediger, the principal vendor of the business, has now expired but we are pleased to report that he has agreed to remain with the business on a project basis for a further period. The national emphasis on increasing power generating capacity to cope with demand supports growth prospects for this business. A modest increase in profits is expected in 2008.

Bauer's sales and profits in 2007 were well up on 2006. There was again strong growth in electrical motor sales through the Bearings International national distribution network, which has the ability to deliver anywhere in the country within 24 hours. Also, concentrating sales efforts on project houses and specific industries connected to civil engineering projects paid dividends through increased sales of geared motors. High levels of enquiries would indicate that a good performance in 2008 can also be expected.

Varispeed's 2007 sales and profits were well up on 2006 with a big increase in sales of 200v to 400v inverters and soft starters. A new customer relationship management system introduced in 2007 appears to be having a positive impact on sales and, with good prospects in its marketplace, the business is expected to do well again in 2008.

Mechanical Power Transmission – Abes Technoseal, Angus Hawken, Belting Supply Services, Bestobell, Bosworth and Ernest Lowe are Hudaco's specialised mechanical power transmission businesses, distributing seals, conveyor belting, pumps and valves, drive pulleys, pneumatic and hydraulic equipment, ignition leads and clutches.

Bosworth, a manufacturer of drive pulleys for the mining industry, produced record sales and profits in 2007. The business has a healthy order book and because of its ISO rating it has good prospects of securing export orders. We believe it will at least match last year's operating profit performance with a real prospect of beating it if export orders materialise in time.

Bearings and Power Transmission products division

Abes Technoseal, our industrial sealing business with a fairly extensive exposure to the automotive aftermarket, performed reasonably this year. A major development was the acquisition of Bougicord, an assembler and distributor of automotive ignition leads, for R27 million. In 2008, with HBC, it will relocate to new premises. The enlarged entity provides us with a platform to expand our focus on supplying niche exclusive products into the automotive aftermarket. The enlarged business is budgeting for significant sales and profit growth in 2008.

Belting Supply Services has been substantially re-engineered over the last few years, with the last cog falling into place in 2007 as it relocated to larger premises, giving it better geographical exposure to customers. Notwithstanding the costs of relocation, the business produced sharply higher profits in 2007 and is budgeting for an even better performance in 2008.

Ernest Lowe, a pneumatic and hydraulic product specialist, had a good year and still has a healthy order book, which bodes well for 2008.

Principal brands

German precision bearings.
Distributor since March 2005

INA FAG

Ball and roller bearings from Japan.
Sole distributor since 1962

Koyo

Variable speed drives from Japan.
Sole distributor since 1992

YASKAWA

Seals from Germany.
Sole distributor since 1955

simrit®

Geared motors from Germany.
Sole distributor since 1989

BAUER

European pneumatic equipment.
Distributor since 1959

NORGREN

Own range of electrical plugs
and sockets since 1974

AMPCO®

Clutch kits from Korea.
Sole distributor since 1996

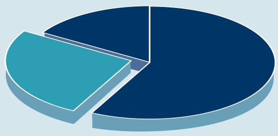
PHC Valeo The Clutch

CHIEF EXECUTIVE'S REVIEW OF OPERATIONS

Powered products division

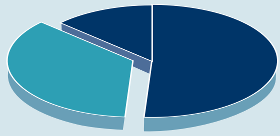
	2007	2006
Sales (Rm)	**589**	477
Operating profit (Rm)	**124**	98
Average NOA (Rm)	**100**	79
Number of employees	**344**	332

SALES



Contribution to group sales 26%

OPERATING PROFIT



Contribution to operating profit 36%

Bob Cameron-Smith
CEO Rutherford

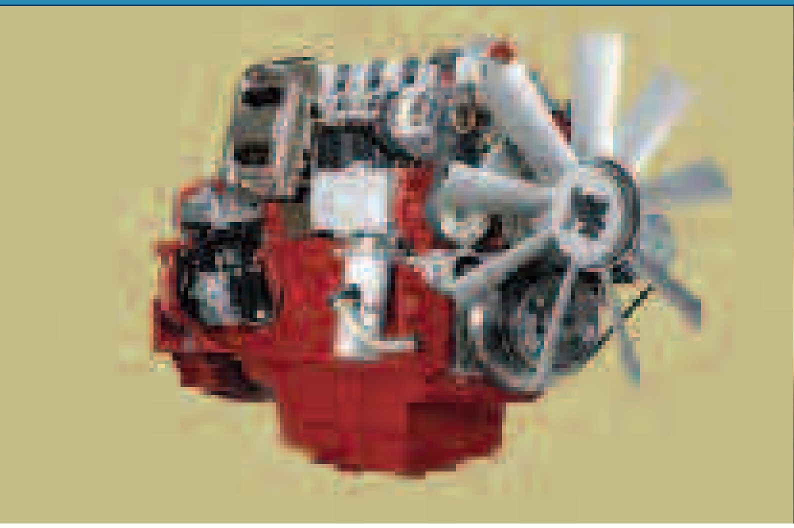
Leon Coetzer
CEO Deutz Dieselpower

Principal businesses

Deutz Dieselpower
Rutherford

Principal markets served %

General trade and leisure	30
Mining	26
Construction	15
Manufacturing	10
Total	81



Demand for diesel engines and spares was very strong throughout the year. Demand for industrial use power tools increased in 2007, but demand for outboard motors slowed. The results produced by this division in 2007 were very pleasing. Sales increased 24% and operating profit by 26%. The operating margin was 21,1% and the return on NOA 124%. Demand for diesel engines is expected to continue to be strong in 2008, whilst growth in sales of power tools will slow somewhat and sales of outboard motors are unlikely to recover until interest rates start falling.

Deutz Dieselpower (DDP) – distributes Deutz diesel engines and spares primarily to the offroad market. Typically, machines like air compressors or underground transporters and ore haulers are imported by sellers of capital equipment already fitted with Deutz diesel engines. The importer or the customer (frequently a mining company) then relies on DDP to service the engine and, at the end of its life, to supply a replacement engine. Although DDP's main market is mining in South and southern Africa, it is also a significant supplier of engines and spares to agricultural, military and construction markets and increasingly to manufacturers of power generators. DDP's sole supplier is Deutz Ag of Germany, which owns 30% of the business.

DDP has distributed Deutz diesel engines and spares in southern Africa for nearly four decades and, as a result, there is a large installed base of engines in the region. Deutz AG has been at the forefront of world diesel engine technology for more than 100 years. Its research concentrates on improving output to weight ratios, reducing fuel consumption and lowering emission levels. These features are increasingly in demand as the high oil price results in customers placing less emphasis on the initial cost of the product and more on total cost per unit of output. Deutz diesel engines comply with Euro 4 emission standards (compulsory in Europe since October 2006). Certain engines complying with Euro 5 (compulsory in Europe from October 2009) can already be supplied to customers if required. In 2007 Deutz launched their first hybrid engine, putting it at the forefront of what is likely to be an increasingly important technology.

Demand for engines by the mining and power generation sectors was above expectations for most of 2007, and enquiries and sales activity were strong throughout the year. Operating profit increased sharply and a further improvement in net operating asset turn was achieved, resulting in a very satisfactory return on net operating assets. Owing to a general undersupply of mining and construction equipment worldwide, Deutz AG continued to experience unprecedented demand for its product and supply lead times increased progressively during the year despite significant expansion in supply capacity. DDP maintained a high stockholding to counter these effects but supply problems are expected to persist for the foreseeable future. Three new branches were opened this year, exacerbating the in-house shortage of technically skilled diesel engineers. To avoid this having an adverse effect on DDP's service to customers, a higher capacity in-house technical training academy will begin in 2008. Prospects for the 2008 financial year and beyond are good. Demand from the power generation market will be strong and a shift in the market towards low-emission diesel engines, particularly from the mining industry, is anticipated over the next few years. It is therefore expected that the business will continue its strong sales and profit growth of the past few years.

Rutherford – is the sole South African distributor of Makita (high end, industrial and professional) and Maktec (medium market segment) power tools, Mercury and Mariner outboard motors, Mercruiser inboards and spare parts to independent retail outlets from warehouses in Johannesburg, Cape Town and Durban. Makita of Japan is the largest manufacturer of professional and industrial power tools in the world, with factories in Japan, United Kingdom, Rumania, China, USA and South America. Mercury/Mariner, with manufacturing facilities in the USA, Europe and China, is the largest manufacturer of outboard and inboard marine motors.

CHIEF EXECUTIVE'S REVIEW OF OPERATIONS

Power tool volume sales again increased by double digits this year. During the year several new Makita tools were introduced, notably a cordless range with lithium iron battery technology, an acknowledged world market leader, broadening the range and underpinning Makita as the pre-eminent brand in the industrial power tool market in South Africa. The Maktec range was broadened considerably during the year, resulting in the brand delivering considerable volume growth and becoming a force to be reckoned with in its own right in its market segment. Ongoing and regular marketing initiatives to add value to customers were successfully introduced during the year – with many of these initiatives immediately copied by our competitors.

As expected, outboard motor volume sales declined in 2007. The steadily increasing interest rates of the past two years and the introduction of the 2007 National Credit Act caused a decline in the market for boats in South Africa. In addition, our principal supplier discontinued the manufacture of carburetor two-stroke motors at the end of 2006 in response to the banning of this technology for environmental reasons in USA and European markets. Carburetor two-stroke motors continue to be manufactured by our competitors and make up a large part of the entry level market as they are significantly cheaper than four stroke and direct injection (clean burning) two strokes.

Over the past years there has been a major worldwide swing to four-stroke outboard marine motors. We see this continuing and eventually working in our favour as the Mercury-manufactured Verado four-stroke engine range has world market dominance of the 200 to 275 horsepower supercharged segment. The Mercruiser range of inboard engines had excellent growth this year and continued to be preferred by the more sophisticated boating fraternity.

Sales of Topcon global positioning systems, electronic total stations and nuclear gauges used in civil engineering applications were strong in 2007, benefiting from infrastructure spending, and prospects are good for 2008. Volume sales of commodity rivets were well up, making Rutherford's FTS brand number one in this niche market.

Rutherford's sales increased in 2007 but as predicted last year operating profit margins declined from very high levels, resulting in a similar operating profit performance. The return on net operating assets remains at very attractive levels. Consumer spending on leisure is already slowing and may be followed by housing and residential starts and refurbishment spend. Pressure on pricing and operating margins is likely to remain in 2008 and we predict only modest growth in sales and profits.

Principal brands

Air and liquid-cooled diesel engines. 2kW – 4 000kW.
Sole distributor since 1969

DEUTZ

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

makita

Outboard motors from USA.
Sole distributor since 1986

MERCURY "1 On The Water"

Petrol inboards and Sterndrives from USA.
Sole distributor since 1986

MERCURY MerCruiser

Outboard motors from USA.
Sole distributor since 1978

MARINER OUTBOARDS

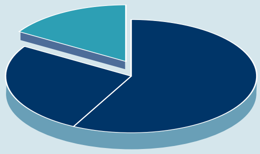
Global positioning systems and survey distributor instrumentation from Japan and USA.
Sole distributor since 1969

TOPCON

Security equipment division

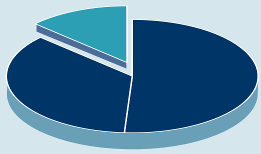
	2007	2006
Sales (Rm)	**365**	313
Operating profit (Rm)	**44**	36
Average NOA (Rm)	**80**	77
Number of employees	**199**	174

SALES



Contribution to group sales 16%

OPERATING PROFIT



Contribution to operating profit 13%

Jack Edery
CEO Elvey Security Technologies

Principal businesses

Elvey Security Technologies
(South Africa and United Kingdom)

Elvey Security Technologies (Elvey) – Elvey's principal business is the distribution of intruder detection, access control and related CCTV equipment. Products carried include alarm control panels, keypads, indoor and outdoor motion sensors, access control monitors and indicators, CCTV cameras, recording equipment, and optical fibre and related data transmission equipment. Elvey is the largest distributor of intruder detection products in southern Africa and its product offering is known for its quality and availability. Customers are electronic security installers and system integrators serving the domestic, commercial and industrial security market. Elvey's largest suppliers, DSC (Tyco) of Canada, Caddx (GE Security) of the USA and Optex of Japan, which are represented on an exclusive basis, are three of the major world manufacturers of intruder detection equipment. In 2002 Elvey was offered the exclusive right to distribute the DSC product range in the UK and, over the next few years, opened a number of branches in that country. In both countries value is added through system design, application, operation advice and installation training.

CHIEF EXECUTIVE'S REVIEW OF OPERATIONS

Elvey's 2007 sales increased 17% to R365 million. Operating profit increased by 23% to R44 million, whilst the operating margin improved to 12% and the return on net operating assets was 55%. This pleasing performance results from continued double digit growth in volume sales in Elvey South Africa, which accounts for 80% of the division's activity. During the year the local business continued its programme to open new branches and modernise and position existing branches in more attractive and accessible areas. Work at improving customer relationships, product marketing and training sales and technical support personnel is also now paying off. This year also marked the introduction of Elvey's e-trade web-based sales platform, a first for the local industry. Increased competition for low technology, entry level equipment supports Elvey's thrust to move its product offering up the value chain, and the feasibility of establishing an IP based infrastructure to enhance communication, particularly of video verification, is on the agenda for 2008.

The UK branch network produced disappointing results in 2007 and two branches were closed during the year. As a result sales were down 11% and at operating profit level the business lost R2 million. The DSC product unfortunately continues to fall behind its competitors in meeting technical specifications essential to ensure UK police force rapid response to alarms (specifications not applicable in the South African market) and as a result is not able to be the market leader it is in South Africa. Together with new management, attempts are being made to introduce new, exclusive brands into that market and some successes are already being seen.

Although growth in South African housing and commercial premises construction and refurbishing is slowing somewhat, the persistently high crime rate and a larger branch network supports sales growth in 2008. As a result Elvey is budgeting for volume and Rand sales to grow again in 2008 and, if this is achieved, another increase in profits can be expected.

Principal brands

Canadian manufacturer of intrusion alarm systems and detection devices.
Sole distributor since 1990
DSC

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

Japanese intrusion detection devices.
Sole distributor since 1987
OPTEX

Taiwanese manufacturer of CCTV cameras.
Sole distributor since 2007
SHANY

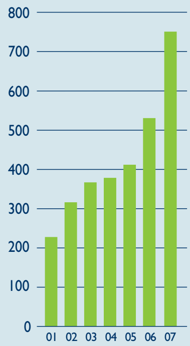
Korean manufacturer of video security systems.
Distributor since 2004
SAMSUNG ELECTRONICS

USA and European manufacturer of intrusion and CCTV equipment.
Distributor since 2005
GE Security

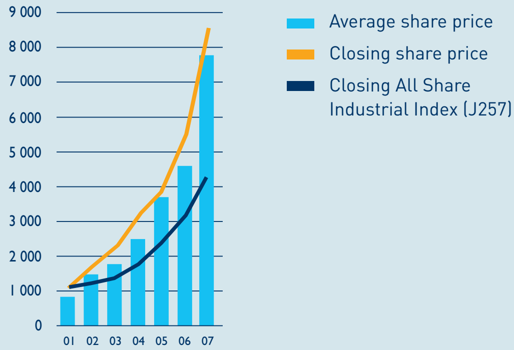
CHIEF EXECUTIVE'S REVIEW OF OPERATIONS

Financial review

Normalised headline earnings per share cents



Hudaco share price cents



Financial review

Principal financial objective

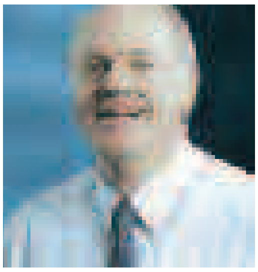
Hudaco's principal long-term financial objective is to provide shareholders with a competitive return on their investment. This means that our overriding financial objective is to achieve long-term growth in earnings and dividends per share and our internal operating measures and incentive programmes are geared towards this goal.

Hudaco aims to achieve earnings growth at a rate at least in line with the earnings of the All Share Industrial Index (J257). To do this we encourage our businesses to grow whilst producing a return (over time) exceeding the cost of capital. We use surplus cash to acquire new businesses when opportunities arise, whilst maintaining prudent financial gearing.

Operating targets and the cost of capital

The main operating performance measure used by the group is return on operating assets (RONA) which is operating profit (PBIT) expressed as a percentage of average net operating assets (NOA) employed during the year. NOA is total assets excluding investments and cash less current liabilities excluding interest bearing debt. Each business is measured against its own benchmark, its objective being to maximise its returns by producing the ideal balance between operating profit margin (%) and NOA turn (times) with the product of the two being its RONA.

Industrial distribution businesses typically generate an operating profit margin of between 8% and 15%. The lower the operating profit margin, the higher the net operating asset turn has to be to achieve an RONA exceeding the cost of capital. An NOA turn of between three and four times is usual for our kind of business and requires management to achieve the right balance of the elements of working capital – inventory, accounts receivable and supplier credit.



Peter Poole
Group financial director

Mzolisi Nkumanda
Group secretary

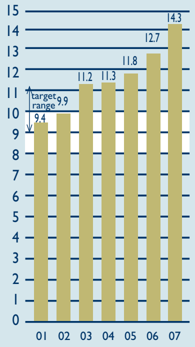
A RONA of 20% roughly equates to the pre-tax cost of capital at current interest and income tax levels which we use as the "hurdle rate" for new investments. We have however set an internal target of no less than 30% for the group as a whole. The group's operating profit margin in 2007 was 14,3% (2006: 12,7%), whilst NOA turn was 3,6 times (2006: 3,4 times). The RONA was therefore 52% (2006: 43%), well above the group target rate. Shareholders have been rewarded by a substantial increase in the share price over the last four years and total returns to shareholders over the last seven years have outperformed the industrial index (J257). Given the group's prospects and notwithstanding the current high earnings base we believe the group can continue to provide a return at least in line with the J257 industrial index.

Earnings

This year normalised headline earnings per share (which excludes the cost to introduce BEE shareholders to the group and STC on the special dividend) of 750 cents is up 41% on 2006. We are using normalised headline earnings per share in our return calculations as we think it should be the benchmark against which our 2008 performance should be judged. Over the last six years headline earnings per share have grown by

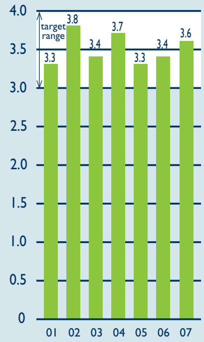
CHIEF EXECUTIVE'S REVIEW OF OPERATIONS

Operating profit margin %



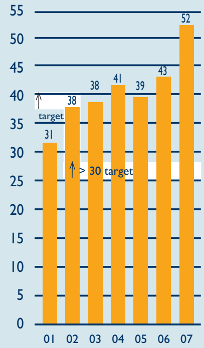
Operating profit | Turnover

NOA turn* times



Turnover | Average NOA

Return on NOA* %



Operating profit | Average NOA

335% from 224 cents in 2001 to 750 cents, a compound growth rate of 22,3% per annum. Over the same period earnings in the industrial index (J257) have grown by a compound growth rate of 19% per annum. Hudaco's share price has been significantly re-rated in recent years and its current price earnings (based on normalised headline earnings per share) ratio of 11,3 at the end of the 2007 financial year is 69% of the J257 industrial index price-earnings ratio of 16,3.

Dividends

Hudaco's policy is to pay an interim and final cash dividend to shareholders covered approximately three times by headline earnings. This year's normal dividends totalled 260 cents – up 37% on last year and are made up as follows:

	2007	2006	% change
Interim	**65c**	50c	+30
Final	**195c**	140c	+39
Total	**260c**	190c	+37
Cover	**2,9**	2,8	

A special dividend of R100 million (R3,30 per share) was declared in June and paid to shareholders in December 2007.

Cash flow

A summarised operating cash flow statement is set out below:

	2007 Rm	2006 Rm
Cash generated from trading	**334**	248
Increase in working capital	**(71)**	(62)
Operating activities	**263**	186
Interest and dividends received	**82**	13
Finance costs	**(80)**	(5)
Taxation paid	**(81)**	(65)
Cash flow from operations	**184**	129

Cash flow from operations of R184 million (563 cents per share) was strong. After investing, R21 million in plant and equipment, R35 million in new businesses and paying R67 million in dividends to shareholders, the year closed with cash on hand of R317 million (2006: R238 million).

Borrowings

Although Hudaco currently has cash on hand we would prefer to invest this and more in growing existing businesses or in new businesses and would ideally like to take on more senior debt. We would aim to operate with net senior debt no higher than 50% of total shareholders' funds.

Perhaps more important than managing gearing is ensuring that interest on senior debt is covered at least five times by operating profit.

In 2007 the group issued a R2,2 billion subordinated debenture to fund the restructure of its principal operating subsidiary Hudaco Trading (Pty) Ltd, to facilitate its introduction of a significant BEE shareholding. This transaction is dealt with in detail elsewhere in this and the chairman's statement. Our bankers have retained our senior debt facilities as this debenture is subordinated to all other debt in that company.

Taxation

The effective rate of taxation is 31% (2006: 33%). However, if one takes into account that the BEE shareholder charge of R44 million is not tax deductible and the preference share dividend of R67 million received for four months is not taxable, the effective rate of tax is 34%, of which 29% is normal taxation and 5% is Secondary Tax on Companies. The latter is abnormally high due to the special dividend.

In 2008 the dividends on preference shares will be received for the full 12 months, which will reduce the effective tax rate. In future years the effective tax rate will climb steadily as incremental profits are taxed at the full rate and as it is expected that STC (tax on dividends paid) will be replaced by a tax on dividends received.

Financial risk management

Note 24 to the financial statements sets out full details of how the group manages financial risk.

Retirement funds

The group operates only defined contribution pension and provident fund schemes. Risk-related benefits for death in service are insured. Therefore, the group's funding rate is known with certainty and there is no under-funded pension scheme risk. Scheme assets and liabilities are held in separate, independently administered funds run by trustees in terms of the Pension Funds Act.

The group's primary fund has completed its surplus apportionment exercise based on its valuation on 30 June 2002. The actuarial surplus of R3 million was applied to former members who exited the fund prior to 1 December 2001 with fewer than five years' service. They were refunded 87% of the employer contribution forfeited on exit. The balance of the funds have used June 2004 as a valuation date for their surplus apportionment. They have actuarial surpluses and will shortly submit their plans for apportionment to the registrar for approval. The principal officer of the group's three main funds has advised that he is not aware of any material improper use of surpluses that may have to be refunded by the employer, but this opinion is still subject to the finalisation of the surplus apportionment exercises.

In 1991 one of the group funds converted from a defined benefit fund to a defined contribution fund and adopted a new set of rules. The then administrators and underwriters advised that the new rules authorised the employer to continue with the contribution holiday, which approximated R1,7 million per annum between 1992 and 2001. In 2004 the FSB advised that, in its opinion, these rules did not allow for the continuation. The fund trustees, the employer and the administrators at that time have taken the FSB decision on appeal. This process is still unresolved. Although we are confident of success the outcome of this appeal is uncertain and therefore has to be treated as a contingent liability. The employer has numerous remedies available to recover any refund that may have to be made to the fund should the review be unsuccessful.

Appreciation

On behalf of my colleagues in the group's senior management team, I thank Hudaco's non-executive directors for the guidance they give to operational management on strategic and governance issues. I would also like to take this opportunity to pay tribute on behalf of Hudaco's board, the senior management team and all its employees to Peter Campbell who retires in 2008 after 10 years as chairman. Peter saw the group through some difficult trading years at the beginning of his tenure but he has been rewarded by seven years of strong growth latterly. He played a significant role in the formation of the Hudaco executive committee and provided important guidance to the board as it coped with significant regulatory changes.

I take this opportunity to welcome Royden Vice to the chairmanship. I personally also extend thanks to all managers and staff in the group, and in particular the members of the executive committee, for their advice and achievements this year.

Stephen Connelly.

SJ Connelly
Chief executive

31 January 2008

CORPORATE GOVERNANCE

"We aim to achieve our corporate objectives in a manner that is governed by high standards of ethical conduct, sensitive to the needs of the communities in which our businesses operate and conscious of safety and environmental responsibilities."

The Hudaco board is committed to a high standard of corporate governance and recognises the role that the non-executive directors play in achieving this. Hudaco's non-executive directors stay abreast of the company's business through comprehensive board presentations, site visits, business functions and interactions with senior management. The mandatory disclosure requirements of the JSE Listing Requirements are covered in the following report:

The board

The board functions in accordance with a formal charter. In addition to its powers and duties under the company's articles of association, the charter tasks the board with setting group strategy, agreeing important objectives, approving budgets, monitoring group performance and risks and appointing the chief executive. There is a formal schedule of material matters especially reserved for the board's approval.

The board carries out a self-evaluation of its and its sub-committees' effectiveness every two years. The one carried out in 2007 indicated no major issues that required intervention.

The selection and appointment of directors and the company secretary are matters for the board as a whole. All directors have access to the services and advice of the group secretary. Directors are entitled to seek independent, professional advice at the group's expense.

Four non-executive directors have been appointed to the board for fixed terms not exceeding three years, one of whom, Royden Vice, was appointed on 28 June 2007. The chairman is an independent, non-executive director. There are three executive directors, all of whom have service contracts of indefinite term, but with three months notice of termination. The board of directors meets formally four times a year. During the 2007 financial year a fifth special board meeting was held. All directors attended all meetings, except Graham Gardiner and Nene Molefi who each missed one meeting.

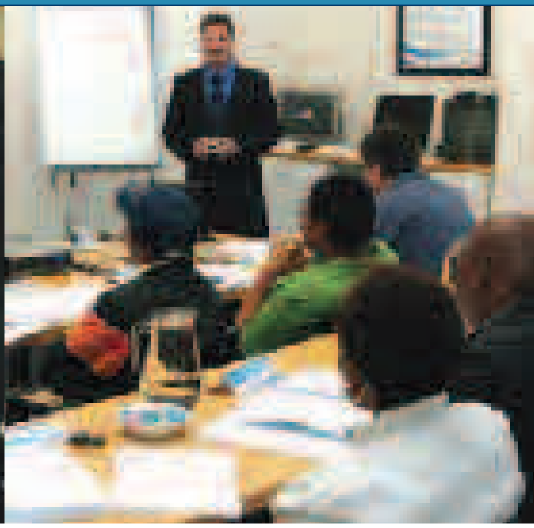
Details of the members of the board can be found on pages 4 and 5.

Board committees

Audit and risk management committee

The members of this committee are JB Gibbon (chairman) and PL Campbell (both independent, non-executive directors). The group chief executive, the group financial director, the external auditors and the head of the group risk and internal audit department attend committee meetings by invitation.

The committee functions under written terms of reference. Its duties relate to the management of risk across the group, the safeguarding of assets, the operation of adequate systems and control processes, and compliance with legal and accounting standard requirements in the group's financial reporting and accounting statements. It also reviews the risk register, the internal audit annual plan, the external audit scope, and important accounting, taxation and financial reporting issues. The findings and recommendations of the external auditors and the group risk and internal audit department are used to determine the effectiveness of management systems, information and internal controls. Consultation between the external and internal auditors is encouraged to achieve an efficient audit process. The committee monitors proposed changes in accounting policy, considers the accounting and taxation implications of major transactions and sets the principles for using the external auditors for non-audit services. In particular, it reviews the interim and annual financial statements before submission to the board.



The committee meets three times a year and all members attended all meetings this year. The chairman of the audit and risk management committee is required to report to the board after each meeting.

The role of this committee particularly in relation to all group companies is under review following the promulgation of the Corporate Laws Amendment Act in December 2007.

Remuneration committee

The committee consists of PL Campbell (chairman), YKN Molefi and R Vice (appointed in 2007) (all non-executive directors). The group chief executive attends meetings by invitation. The committee, which functions under written terms of reference, met twice during the year and all eligible members attended the meetings.

The committee reviews and approves senior executive remuneration and issues guidelines and limits for general salary adjustments, approves senior appointments, and reviews succession plans and service agreements for members of the executive committee. The chief executive is not present when his remuneration is discussed. It also reviews the performance of senior management.

Senior management remuneration has three elements: fixed guaranteed remuneration, short-term performance related remuneration (based on annual results) and longer-term (three to five years) performance remuneration linked to share price appreciation. The group pays market-related remuneration and the committee receives advice from independent consultants to ensure that this is the case. Fixed guaranteed remuneration is adjusted to market-related levels every two years.

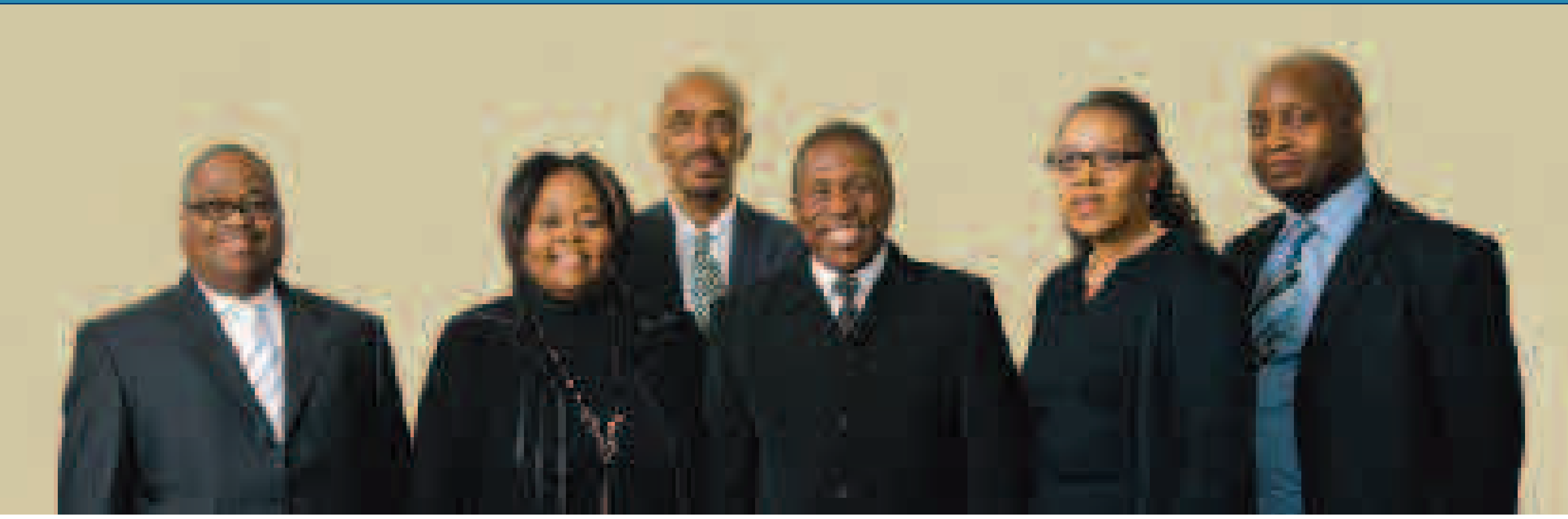
Short-term performance related remuneration for the CEO and finance director is linked to the achievement of annual growth in normalised headline earnings per share. For senior operating managers it is linked to a combination of the achievement of appropriate returns on operating assets and annual growth in operating profit in their divisions or businesses. In special cases, the achievement of non-financial targets may also be required. Short-term performance related remuneration has no cap. Earnings of up to 75% of fixed remuneration are paid in full in the year in which they are earned, whilst half of the payment for achieving above 75% is carried forward one year and paid only if certain conditions have been met in the second year.

Long-term performance based remuneration is linked to the appreciation of the Hudaco share price. Since 2006 the group has been running a share appreciation bonus scheme. Awards are made every two years, with the next award due in 2008.

Participants in this scheme are paid an annual bonus equal to the appreciation in the market value of a predetermined number of Hudaco shares in each of the fourth, fifth and sixth year after the award.

Participants may elect to defer the right to the bonus but it must be taken up within two years of vesting. The number of share units awarded to participants is based on their level of seniority and annual guaranteed remuneration. The performance requirement for all of the 2006 award to vest is the achievement of a CPIX plus 5% per annum increase in normalised headline earnings per share over the vesting period. Performance criteria for future awards will be based on market practice.

CORPORATE GOVERNANCE



In 2007 the strike price of the 2006 award in the share appreciation bonus scheme was adjusted from R43,05 to R39,75 in terms of the rules of the scheme and in accordance with a determination by KPMG that the special dividend of R3,30 per share represented a loss of value to participants.

The committee also recommends non-executive director fees to the board before submission to shareholders for approval at the annual general meeting.

Individual directors' remuneration is disclosed under note 27,3 on page 57.

Executive committee

The executive committee comprises the three executive directors and seven senior executives (see pages 4 and 5). Meetings are chaired by the chief executive and the chairman of the company attends meetings by invitation. The executive committee's principal terms of reference are to advise the chief executive on the formulation of operating policy, the implementation of group strategy and the management of key group risks. The committee incorporates a skills and equity sub-committee and a safety, health and environment sub-committee, each of which functions under written terms of reference. The chairman of the executive committee is required to report to the board once a year that it has carried out its mandate.

The executive committee meets formally four times a year. During the 2007 financial year all members attended all meetings, except G Da Silva and G Gardiner who missed one meeting each.

Financial control and risk management

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:

- 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 statement and balance sheet 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, and
- Risk registers at operating division and group level, which are monitored regularly.

These controls and procedures provide reasonable assurances 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.

A group risk and internal audit department, which functions under written terms of reference, comprises a senior manager and two assistants. Its role and function are established as envisaged in the Standards for the Professional Practice of Internal Auditing. Its work is designed to ensure that all aspects of each business, including internal control procedures, are subject to professional risk assessment continuously.

Members of the Ulwazi Consortium whom together own 5% of Hudaco Trading.

FROM LEFT TO RIGHT
Cyril Gamede
Nene Molefi
Merafe Ramono
Sipho Thomo
Zenani Dlamini
Nene Mathebula

The brief of the department 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 being reviewed annually.

The department has reported that the internal control structures in the businesses are sound and comply with laid down procedures.

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

The directors acknowledge their responsibility for the adequacy of accounting records, the effectiveness of risk management and internal control environment, the appropriateness of accounting policies supported by reasonable and prudent judgements, and the consistency of estimates.

The directors further acknowledge their responsibility for the preparation of the annual financial statements, adherence to applicable accounting standards, and presentation of the state of affairs and the results of the company and of the group.

The external auditors are responsible for reporting on whether the financial statements are fairly presented in accordance with International Financial Reporting Standards (IFRS). An external audit provides reasonable assurance that the financial statements are free of material misstatement.

Social responsibility and sustainability

The Hudaco board acknowledges its responsibility to develop and manage sustainable businesses for the benefit of all stakeholders, including the community at large.

Skills development

Hudaco is aware of the need to appoint previously disadvantaged individuals to management positions in the group. To achieve this, initial consideration for any vacancy is given to previously disadvantaged people.

Extensive in-house and external training is given in a wide range of practical and theoretical subjects to better equip all employees in all operating divisions with the skills required to develop and to be able to apply for senior positions.

Hudaco provides assistance to the University of Johannesburg to maintain a high standard of lecturing in its mechanical engineering department. In terms of a subvention agreement the salary of a senior lecturer is supplemented by Hudaco. In addition students are given practical training in the group and some are offered fulltime employment.

Hudaco also supports the Thuthuka Bursary Fund, which develops and trains black chartered accountants.

Corporate social investment

Each year the Hudaco board sets aside a specific amount for corporate social investment through the Hudaco Foundation. In 2007 R600 000 was set aside (2006: R350 000). Charitable institutions are supported by both the Hudaco Foundation and individual operating divisions. Mainly through these donations Hudaco is involved with a number of specific projects aimed at improving the lives of previously disadvantaged communities.

CORPORATE GOVERNANCE

"The Hudaco board acknowledges its responsibilty to develop and manage sustainable businesses for the benefit of all stakeholders, including the community at large."

The group's BEE transaction resulted in three new shareholders, each with a 5% holding in the group's main operating subsidiary Hudaco Trading. Two of them will play a large part in the group's future corporate social investment.

- The Hudaco broad-based BEE foundation owns 5% and will distribute 85% of its annual net income to promote commercial or community-based projects in welfare, healthcare, housing and education. At least 50% of the distributions will be to black women.
- The Hudaco Trading staff education trust owns 5% and will empower current and future black employees who represent 57% of Hudaco's current staff complement, their spouses and children, by granting scholarships, bursaries and study loans to eligible applicants. At least 50% of benefits will be distributed to black women. Dividend income will start flowing into the trusts in 2008 and the first grants given in respect of the 2009 academic year.

Support for SMMEs

A number of initiatives are in operation in the group aimed at giving previously disadvantaged individuals an opportunity to improve their lives and ensure the success of their fledgling businesses. The group's BEE procurement policies are increasingly used to support these initiatives.

Ethics

Hudaco has a code of business conduct approved by the board and distributed to all staff. It is a living document and suggestions from employees are welcomed. The intention is to achieve an up-to-date standard of conduct with which all staff can identify and by which they can live.

HIV/Aids

The executive committee has approved a life-threatening diseases policy, which has been adopted by all operating divisions. From a benefit point of view the policy regards HIV/Aids in the same light as any other life-threatening disease and ensures non-discrimination against HIV-positive employees. Businesses monitor the incidence of HIV to the extent that they are able, given rules of confidentiality, to determine the appropriate individual approach to the disease. The board encourages employee training and education programmes on HIV/Aids.

Safety, health and the environment

The group is committed to best practice and most businesses are ISO 14001 and OHSAS 18001 compliant. All businesses are required to report regularly to the executive committee on their compliance with applicable laws and regulations.

Employment equity

The group complies with legislative and regulatory requirements to favour previously disadvantaged individuals (as defined) in its employment practices. Appropriate structures are in place to foster good employer-employee relationships through effective sharing of relevant information, consultation and resolution of conflict. Head office plays a leading role in the development of management and monitors compliance with legislation. Employment equity plans and strategies are in place and updated in compliance with the Act. The group's staff complement in the management and skilled occupational levels is as follows:

"The Institute of Chartered Secretaries and Administrators awarded Hudaco a merit certificate for the 2006 annual report."

Occupational level	Black	Coloured	Asian	White	Total	Male	Female
2007							
Management	2	2	3	154	161	143	18
Skilled	173	75	76	535	859	633	226
2006							
Management	2	1	4	141	148	127	21
Skilled	132	59	70	487	748	578	170

Communicating with shareholders

The chief executive and the financial director regularly communicate with shareholders, the investment community and media analysts. Visual aids used in presentations are made available on the group website. Shareholders are encouraged to attend annual general meetings. Financial results are published on Sens, on the group website and in the press, and shareholders receive a hard copy thereof timeously.

Dealing in securities

The group secretary maintains a record of all dealings in Hudaco shares by directors and selected employees, and ensures that proper authority for dealing is in place prior to transactions being initiated. Directors, officers and selected employees are made aware of restricted or closed periods for dealing in Hudaco shares and the provisions of insider trading legislation.

Conclusion

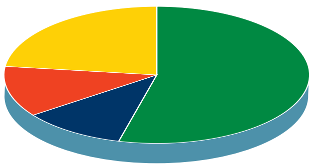
The board of Hudaco is of the view that the company complies with the Code of Corporate Practices and Conduct of the King II Report.

VALUE-ADDED STATEMENT

for the year ended 30 November 2007

	2007 R000	2006 R000
Turnover	**2 226 868**	1 837 834
Less: cost of materials, facilities and services from outside the group	**1 504 059**	1 241 624
Value-added	**722 809**	596 210
Net interest income	**1 282**	7 117
Total wealth created	**724 091**	603 327
Distributed to:		
Employees – salaries, wages and other benefits	**392 742**	350 330
Government – company taxation	**86 464**	76 296
Shareholders – dividends	**168 818**	54 176
Maintain and expand the group		
– profits retained	**63 979**	111 137
– depreciation	**12 088**	11 388
Total wealth distributed	**724 091**	603 327

Distribution of wealth created %



	2007	2006
Employees	**54**	58
Reinvested	**11**	20
Taxation	**12**	13
Shareholders	**23**	9

STATEMENT OF GROSS CONTRIBUTIONS TO THE GOVERNMENT IN SA

for the year ended 30 November 2007

	2007 R000	2006 R000
Company income tax and STC	**85 729**	75 998
Customs and excise duty	**23 678**	16 742
RSC and net SD levies and assessment rates	**2 719**	4 412
Value-added tax not deemed an input credit	**1 122**	744
Direct contribution to government	**113 248**	97 896
Add the following collected on behalf of government:		
Value-added tax (net)	**59 420**	53 870
Employees' tax	**59 394**	51 807
Gross contributions by the group to government in SA	**232 062**	203 573

FINANCIAL STATEMENTS

Hudaco

INDEX TO FINANCIAL STATEMENTS

"We aim to produce superior returns for our shareholders by building on the base of our existing businesses and by continuously looking for growth opportunities."

Contents

STATEMENT OF DIRECTORS' RESPONSIBILITY

The directors of Hudaco are responsible for the preparation of the financial statements and other information presented in the annual report in a manner that fairly presents the state of affairs and results of the operations of the company and the group. The annual financial statements contained on pages 37 to 62 have been prepared in accordance with International Financial Reporting Standards. 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 36.

The directors have no reason to believe that the company and the group will not continue as going concerns in the year ahead and have prepared the financial statements on this basis.

The directors assume responsibility for the annual financial statements and the group annual financial statements, set out on pages 37 to 62, which were approved by the board on 31 January 2008 and are signed on its behalf.

PL Campbell
Chairman

SJ Connelly
Chief executive

31 January 2008

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF HUDACO INDUSTRIES LIMITED

Report on the financial statements

We have audited the annual financial statements and group annual financial statements of Hudaco Industries Limited, which comprise the directors' report, the balance sheets as at 30 November 2007, the income statements, the statements of changes in equity and cash flow statements for the year then ended and a summary of significant accounting policies and other explanatory notes, as set out on pages 37 to 62.

Directors' responsibility for the financial statements

The company's directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and in the manner required by the Companies Act of South Africa. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the company and the group as of 30 November 2007, and of their financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards, and in the manner required by the Companies Act of South Africa.

Grant Thornton
Chartered Accountants (SA)
Registered Auditors

Per: CV Amoils
Chartered Accountant (SA)
Registered Auditor

31 January 2008

137 Daisy Street
Cnr Grayston Drive
Sandown 2196
Johannesburg

REPORT OF THE DIRECTORS

For the year ended 30 November 2007

This report deals with matters not specifically dealt with elsewhere in the annual report.

Financial results

The results of the company and the group are set out in these financial statements. The nature of business and operations is commented on in the chief executive's review.

Dividends

The following dividends per share have been declared and proposed for the 2007 financial year:

Final 2006

Dividend No 39	140c
Record date	16 March 2007
Paid	19 March 2007

Interim 2007

Dividend No 40	65c
Record date	12 October 2007
Paid	15 October 2007

Special 2007

Dividend No 41	330c
Record date	14 December 2007
Paid	18 December 2007

Final 2007 – proposed

Dividend No 42	195c
Record date	14 March 2008
Payable	17 March 2008

Directors

There are three independent non-executive directors: PL Campbell, JB Gibbon and RT Vice, and one non-executive director YKN Molefi (see page 4).

There are three executive directors: SJ Connelly, GE Gardiner and PM Poole (see page 5).

In accordance with the company's articles of association YKN Molefi, PM Poole and RT Vice retire at the forthcoming annual general meeting. The retiring directors are eligible and offer themselves for re-election.

Acquisitions and disposals

During the year the group acquired for cash the businesses of Bougicord with effect from 30 July 2007 for R22,8 million, of which R14,6 million was goodwill, and Supreme Fluid Sealing CC with effect from 1 June 2007 for an amount of R4,25 million, of which R1,1 million was goodwill.

The business of Valard Bearings was sold for R3,5 million with effect from 1 February 2007.

Authorised and issued share capital

The authorised share capital remained unchanged during the year. The issued share capital was increased by R76 036 to R3 326 144 through the issue of 760 355 shares of 10 cents each to employees in terms of the share incentive scheme for a total consideration of R14 440 818 (average of R18,99 per share). Of these, 253 332 shares were delivered to directors for a total consideration of R5 187 654.

Special resolutions adopted by subsidiary companies

Hudaco Industrial Holdings Limited changed its name to Hudaco Trading (Pty) Ltd, amended its object clause and increased its authorised share capital from R1 500 to R2 000, being 20 000 shares of 10 cents each.

Hudaco Trading Limited changed its name to Hudaco Investment Company Limited.

Barbara Road Investments (Pty) Ltd amended its object clause and adopted new articles of association.

Interest of directors

The interest of the directors in the shares of the company is set out in note 27.

Subsidiaries

Details of the principal subsidiaries and their aggregate after-tax profits and losses can be found on page 62.

GROUP INCOME STATEMENT

For the year ended 30 November 2007

	Notes	2007 R000	2006 R000
Turnover		**2 226 868**	1 837 834
Cost of sales		**1 382 638**	1 140 809
Gross profit		**844 230**	697 025
Operating expenses		**526 251**	462 533
Operating profit	4	**317 979**	234 492
Cost to introduce BEE shareholders	5	**43 913**	
Impairment of goodwill			9 598
Profit before interest and dividends received		**274 066**	224 894
Dividends received on investment in preference shares		**66 618**	
Interest received		**15 406**	12 765
Finance costs	6	**(80 742)**	(5 648)
Profit before taxation		**275 348**	232 011
Taxation	8	**86 464**	76 296
Profit after taxation		**188 884**	155 715
Attributable to:			
Shareholders of the group		**182 802**	149 861
Minorities	9	**6 082**	5 854
		188 884	155 715
Basic earnings per share (cents)	10	**605,7**	501,7
Diluted basic earnings per share (cents)	10	**586,2**	486,6

	Notes	2007	2006
Headline earnings per share (cents)	10	**604,5**	532,5
Diluted headline earnings per share (cents)	10	**585,0**	516,5
Normalised headline earnings per share (cents)	10	**750,0**	532,5
Diluted normalised headline earnings per share (cents)	10	**725,8**	516,5

GROUP BALANCE SHEET

At 30 November 2007

	Notes	2007 R000	2006 R000
Assets			
Non-current assets		**2 332 805**	125 397
Property, plant and equipment	11	**73 717**	66 930
Investment in preference shares	12	**2 180 966**	
Goodwill	13	**76 619**	57 246
Deferred taxation	14	**1 503**	1 221
Current assets		**1 260 060**	1 094 913
Inventories	15	**544 079**	451 906
Accounts receivable	16	**398 697**	354 617
Bank deposits and balances		**317 284**	288 390
Total assets		**3 592 865**	1 220 310
Equity and liabilities			
Equity		**835 411**	749 906
Shareholders' equity		**806 847**	728 365
Minority interest		**28 564**	21 541
Non-current liabilities		**2 180 966**	6 295
Subordinated debenture	18	**2 180 966**	
Amounts due to vendors of businesses acquired	19		6 295
Current liabilities		**576 488**	464 109
Accounts payable	20	**434 419**	381 659
Interest-bearing debt			50 000
Amounts due to vendors of businesses acquired	19	**10 477**	8 022
Shareholders for special dividend	21.2	**101 498**	
Taxation		**30 094**	24 428
Total equity and liabilities		**3 592 865**	1 220 310

GROUP CASH FLOW STATEMENT

For the year ended 30 November 2007

	Notes	2007 R000	2006 R000
Cash retained from operating activities			
Operating profit		**317 979**	234 492
Add back non-cash items:			
Cost of equity compensation		**4 680**	3 048
Depreciation and surplus on disposal of plant and machinery		**11 707**	10 841
Cash generated from trading		**334 366**	248 381
Increase in working capital	22.1	**(71 188)**	(62 586)
Cash generated from normal operating activities		**263 178**	185 795
Fair value adjustment of cash flow hedges		**216**	203
Finance costs	22.2	**(80 148)**	(4 713)
Dividends and interest received		**82 024**	12 765
Taxation paid	22.3	**(81 080)**	(64 937)
Cash flow from operations		**184 190**	129 113
Dividends paid	22.4	**(67 320)**	(54 176)
Cash retained from operating activities		**116 870**	74 937
Cash utilised in investment activities			
Payments to vendors of businesses acquired		**(7 993)**	(11 286)
Property, plant and equipment – additions		**(20 607)**	(18 138)
– disposals		**3 553**	2 298
Investment in new businesses	22.5	**(27 084)**	
Minority interest acquired		**(286)**	
Subtotal		**(52 417)**	(27 126)
Investment in preference shares		**(2 180 966)**	
Net cash invested		**(2 233 383)**	(27 126)
Net cash (applied) retained after investment		**(2 116 513)**	47 811
Cash flows from financing activities			
Issue of subordinated debenture		**2 180 966**	
Decrease in short-term interest bearing debt		**(50 000)**	
Issue of shares		**14 441**	2 911
Cash flow from financing activities		**2 145 407**	2 911
Increase in cash and cash equivalents		**28 894**	50 722
Cash and cash equivalents at beginning of the year		**288 390**	237 668
Cash and cash equivalents at end of the year		**317 284**	288 390
Cash flow per share (cents)	22.6	**563**	429

GROUP STATEMENT OF CHANGES IN EQUITY

For the year ended 30 November 2007

R000	Share capital	Share premium	Non-distributable reserves	Retained income	Shareholders' equity	Minority interest	Equity
Note	17.2		17.6	17.4			
Balance at 30 November 2005	3 227	12 864	3 419	611 050	**630 560**	24 487	**655 047**
Profit after taxation				149 861	**149 861**	5 854	**155 715**
Increase in equity compensation reserve			2 706	342	**3 048**		**3 048**
Translation of foreign operations			5 864		**5 864**		**5 864**
Movement on fair value of cash flow hedges			203		**203**		**203**
Issue of 237 104 shares	23	2 888			**2 911**		**2 911**
Dividends (note 21)				(45 376)	**(45 376)**	(8 800)	**(54 176)**
Balance at 30 November 2006	3 250	15 752	12 192	715 877	**747 071**	21 541	**768 612**
Less shares held by subsidiary company	(251)		(41)	(18 414)	**(18 706)**		**(18 706)**
Net balance at 30 November 2006	2 999	15 752	12 151	697 463	**728 365**	21 541	**749 906**
Balance at 30 November 2006	3 250	15 752	12 192	715 877	**747 071**	21 541	**768 612**
Profit after taxation				182 802	**182 802**	6 082	**188 884**
Increase in equity compensation reserve			5 022	(342)	**4 680**		**4 680**
Arising on the introduction of BEE shareholders			37 326		**37 326**	6 587	**43 913**
Translation of foreign operations			216		**216**		**216**
Movement on fair value of cash flow hedges			2 475		**2 475**		**2 475**
Issue of 760 356 shares	76	14 365			**14 441**		**14 441**
Minority interest acquired						(286)	**(286)**
Dividends (note 21)				(163 458)	**(163 458)**	(5 360)	**(168 818)**
Balance at 30 November 2007	3 326	30 117	57 231	734 879	**825 553**	28 564	**854 117**
Less shares held by subsidiary company	(251)		(41)	(18 414)	**(18 706)**		**(18 706)**
Net balance at 30 November 2007	3 075	30 117	57 190	716 465	**806 847**	28 564	**835 411**

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). 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 its subsidiaries. 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 balance sheet at their fair values at dates of acquisition. Significant inter-company transactions and balances have been eliminated.

1.3 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.

The cost of goodwill arising on acquisitions prior to January 2001 was charged directly to retained income and that arising on acquisitions between January 2001 and March 2004 was amortised over its effective economic life – which amortisation ceased in March 2004.

Goodwill arising on acquisitions before April 2004 has been retained at the previous net amounts that are now subjected to being tested for impairment at least annually.

1.4 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 are reassessed annually.

1.5 Impairment

On an annual basis the group reviews all assets, both tangible and intangible, carried on the balance sheet 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 income in the period in which they are identified.

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 amount are limited to original cost. A reversal of an impairment loss is recognised in income in the period in which such a reversal is identified.

1.6 Capitalisation of leased assets

Assets subject to finance lease agreements are capitalised at their cash cost equivalent and the corresponding liabilities to the lessors are raised.

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

1.7 Share-based payments

Employee remuneration

The group operates equity settled share-based compensation plans for senior management including executive directors. The costs of these arrangements are measured by reference to their fair value at the date on which they are 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 cost takes 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 balance sheet 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 is made, with a corresponding credit to equity.

1.8 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.

Obsolete, redundant and slow-moving inventories are identified and written down to their estimated net realisable value.

1.9 Deferred tax

Deferred tax is accounted for in each taxable entity within the group on a comprehensive basis, which means that all temporary differences are fully provided for at current rates of taxation. Deferred tax assets are recognised only where the realisation of such an asset is reasonably assured.

1.10 Foreign currency transactions

The functional currency of all but one entity in the group is Rand. The functional currency of Elvey Group UK Limited is the British Pound.

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

At the balance sheet date, all assets and liabilities denominated in foreign currencies are translated to the functional currency at the exchange rate ruling at the balance sheet 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 the income statement.

1.11 Foreign currency translation

The functional currency of Elvey Group UK Limited (Elvey UK) is the British Pound. The assets and liabilities of Elvey UK at the balance sheet date are translated to the group's presentation currency, Rand, at the rate of exchange ruling at the balance sheet date. Its income statement is translated at the average exchange rate ruling for the year. Exchange differences arising on this translation are recognised directly in the foreign currency translation reserve within equity.

On disposal of a foreign subsidiary with a different functional currency, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the income statement.

1.12 Financial instruments

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

Subsequent to initial recognition these instruments are measured as follows:

- Trade and other receivables are stated at cost less impairment for doubtful debts.
- Investment – 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.
- Cash and cash equivalents are measured at fair value, based on the relevant exchange rates at the balance sheet date.
- Financial liabilities – non-derivative financial liabilities are recognised at amortised cost, comprising net proceeds from original debt less principal payments.
- Derivative instruments, including forward exchange contracts, are measured at fair value.

Gains and losses on subsequent measurements are treated as follows:
Hedge accounting transactions are classified into two categories:

(a) 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, and
(b) cash flow hedges, which hedge exposure to variability in future cash flows attributable to forecast transactions, ie forward exchange contracts in respect of orders placed with foreign suppliers but not yet shipped.

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

1.13 Turnover and revenue

Turnover represents the invoiced value of goods sold outside the group less both settlement discounts allowed and VAT. Turnover and the revenue or income from it are recognised when the risk passes to the customer.

1.14 Dividend income

Dividend income from investments is recognised when the shareholders' right to receive payment has been established.

1.15 Retirement benefits

Defined contribution pension or provident schemes are operated by all group companies. Contributions made to these schemes are charged to the income statement 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.

1.16 Borrowing costs

Borrowing costs are recognised in the income statement in the period in which they are incurred.

1.17 Operating leases

Rentals payable under operating leases are charged to income on a straight-line basis over the term of the relevant lease.

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 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 11
Investments – note 12
Impairment of goodwill tests – note 13
Inventories – allowance for slow-moving and obsolete inventory – note 15
Trade receivables – allowance for doubtful debts – note 16
Fair value of share-based payments – note 17.5
Contingent liabilities – the assessment, based on expert advice received, to determine whether an item is a contingent or actual liability – note 23

Actual results could differ from the estimates made by management from time to time.

3 Impact of new accounting standards on future financial statements of the group

The following new standards, or revisions to current standards, have been issued with effective dates applicable to future financial statements of the group. Only those standards not yet adopted and that could be expected to be applicable to the group are set out below, ie those applicable to unrelated industries or economies are not dealt with herein. Further, new standards or amendments requiring additional disclosure will be dealt with as and when they apply and are not listed below.

IFRS 8 Operating segments

This statement will apply to the group for the financial year ended November 2010 and will replace IAS 14. It changes the basis for identifying operating segments and how the information reported is to be prepared.The group will be required to align its external reporting to that used by the CEO in assessing performance and allocating resources.This statement will have an impact on the make-up of the group's segment reporting but not on the results as a whole.

	2007 R000	2006 R000
4 Operating profit		
Operating expenses comprise:		
Staff costs	**392 742**	350 330
Property rentals under operating leases (note 23.1)	**26 367**	22 944
Depreciation	**12 088**	11 388
Other expenses	**139 043**	120 603
Allocated to cost of sales	**(43 989)**	(42 732)
	526 251	462 533
Included in other expenses and cost of sales are:		
Gains on translation of foreign currency monetary items	**267**	4 563
Cost of fair value hedges	**12 760**	6 612
Surplus on disposal of plant and equipment	**381**	547

5 Cost to introduce BEE shareholders

The cost to introduce BEE shareholders arose on the issue of 15% of the issued share capital in Hudaco Trading (Pty) Ltd, the group's principal operating subsidiary, to three BEE shareholder groupings in August 2007. In terms of International Financial Reporting Standards on share based payments (IFRS2), this cost is to be expensed when the shares are issued and it has been determined as if it were a 10 year option. The underlying computation of the value of the share based payment was based on the Black-Scholes option pricing model with the Hudaco Industries share price as a proxy. The following inputs were used in the model; a Hudaco share price of R84 adjusted to recognise that not all of the group would be owned by Hudaco Trading (Pty) Ltd and that the latter's debenture has a major impact on the value of their equity. Further an expected volatility of 34%, based on history, an expected dividend yield of 9,28% and a risk free rate of 7,78% were applied for the 10 year period.

6 Finance costs		
Interest paid on subordinated debenture	**77 412**	
Interest paid on short term interest-bearing borrowings		5 648
Debt raising fees	**3 330**	
	80 742	5 648
7 Auditors' remuneration		
Audit fees – current year	**4 137**	3 710
Fees for other services	**168**	220
	4 305	3 930

	2007 R000	2006 R000
8 Taxation		
8.1 Taxation comprises		
South African normal taxation		
Current year	**73 770**	69 722
Prior years	**844**	(997)
Deferred normal taxation		
Current year	**(1 110)**	(51)
Prior years	**(116)**	181
Secondary tax on companies	**11 259**	6 592
Deferred secondary tax on companies	**944**	196
Foreign normal taxation – current year	**856**	644
Capital gains tax	**17**	9
Total taxation	**86 464**	76 296
8.2 Reconciliation of rate of taxation	**%**	%
Normal rate	**29,0**	29,0
Exempt income/foreign rate differential	**(7,1)**	(0,5)
Disallowable expenditure	**0,2**	0,7
Secondary tax on companies	**4,4**	2,9
Effective rate for current year before capital items	**26,5**	32,1
Impact of non-deductible abnormal items	**4,6**	1,2
Prior year under/(over) provision	**0,3**	(0,4)
Effective rate of taxation	**31,4**	32,9
9 Minority interest		
Share of normalised earnings	**13 024**	5 854
Share of cost to introduce BEE shareholders and debt raising fees	**(6 942)**	
	6 082	5 854
10 Headline earnings and earnings per share		
Calculation of headline earnings		
Profit attributable to shareholders of the group	**182 802**	149 861
Adjusted for:		
Surplus on disposal of plant and equipment	**(381)**	(388)
Impairment of goodwill		9 598
Headline earnings	**182 421**	159 071
Calculation of normalised headline earnings		
Headline earnings	**182 421**	159 071
Adjusted for:		
Cost to introduce BEE shareholders	**43 913**	
Minority interest in cost to introduce BEE shareholders	**(6 587)**	
Debt raising fees	**3 330**	
Tax effect of debt raising fees	**(966)**	
Minority interest in debt raising fees	**(355)**	
STC on special dividend	**4 579**	
Normalised headline earnings	**226 335**	159 071

The calculation of normalised headline, headline and basic earnings per share is based on normalised headline earnings, headline earnings (both set out above) and earnings attributable to shareholders as set out in the income statement, divided by the weighted average of 30 178 313 shares (2006: 29 870 032) in issue during the year, taking account of shares held by a subsidiary.

The calculation of diluted earnings per share is based on 31 182 441 shares (2006: 30 795 112), being the weighted number of shares in issue of 30 178 313 plus 1 004 129 deemed free issue shares. This assumes that all the shares granted in the share incentive scheme (note 17.5) at prices less than R78,59 (being the average market price for the current year) are taken up and a bonus due in terms of the share appreciation scheme was settled in shares at R78,59 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 at the average market price per share.

11 Property, plant and equipment

2007	Freehold land and buildings	Plant	Computers	Motor vehicles	Other assets	2007 Total R000
Cost						
Opening balance	11 309	26 770	31 663	31 158	15 303	**116 203**
Acquisition of new businesses		1 088	75	39	228	**1 430**
Additions		3 440	4 780	8 596	3 791	**20 607**
Currency adjustments			17		6	**23**
Disposals		(1 468)	(1 300)	(4 350)	(364)	**(7 482)**
Closing balance	11 309	29 830	35 235	35 443	18 964	**130 781**
Accumulated depreciation						
Opening balance	2 789	11 094	16 467	11 335	6 588	**48 273**
Depreciation for the year	161	1 662	4 695	3 841	1 729	**12 088**
Currency adjustments			8		5	**13**
Disposals		(1 129)	(868)	(2 122)	(191)	**(4 310)**
Closing balance	2 950	11 627	20 302	13 054	8 131	**56 064**
Impairment						
Opening balance	1 000					**1 000**
Closing balance	1 000	–	–	–	–	**1 000**
Net book value	7 359	18 203	14 933	22 389	10 833	**73 717**

2006	Freehold land and buildings	Plant	Computers	Motor vehicles	Other assets	2006 Total R000
Cost						
Opening balance	11 309	29 861	34 660	29 555	15 984	121 369
Reclassifications		(517)	624	394	(501)	
Additions		5 017	4 190	6 076	2 855	18 138
Currency adjustments			293		134	427
Assets scrapped*		(6 924)	(7 494)	(31)	(2 880)	(17 329)
Disposals		(667)	(610)	(4 836)	(289)	(6 402)
Closing balance	11 309	26 770	31 663	31 158	15 303	116 203
Accumulated depreciation						
Opening balance	2 626	17 115	20 204	10 891	7 772	58 608
Reclassifications		(370)	(87)	43	414	
Depreciation for the year	163	1 741	4 276	3 790	1 418	11 388
Currency adjustments			169		88	257
Assets scrapped*		(6 924)	(7 494)	(31)	(2 880)	(17 329)
Disposals		(468)	(601)	(3 358)	(224)	(4 651)
Closing balance	2 789	11 094	16 467	11 335	6 588	48 273
Impairment						
Opening balance	1 000					1 000
Closing balance	1 000					1 000
Net book value	7 520	15 676	15 196	19 823	8 715	66 930

*Fully depreciated assets scrapped following a thorough review of the group's fixed asset register on implementing IAS 16.

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 residual useful lives are reassessed on an annual basis, there are many assets outside these ranges. Details of freehold land and buildings are kept at the registered office of the group. A copy thereof is available on written request.

	2007 R000	2006 R000
12 Investment		
Unlisted securities		
Business Venture Investments No 1095 (Pty) Ltd – 100 000 redeemable non-cumulative preference shares. This company is a ring-fenced private company that is managed by and is a fully owned subsidiary of Cadiz Asset Management (see note 24.4)	**2 180 966**	
The preference shares, which the group intends to hold to maturity, are redeemable on 31 August 2017 and are pledged as security for the subordinated debenture (see note 18). Dividends are received quarterly at a rate of 9,2% nominal annual compounded quarterly.		
Directors' valuation	**2 180 966**	
13 Goodwill		
13.1 Goodwill comprises:		
Goodwill arising before 1 January 2001 at cost	**130 537**	130 537
Less amounts written off in terms of prior accounting policies	**(130 537)**	(130 537)
	–	–
Goodwill arising after 1 January 2001 at cost	**104 799**	85 426
Less accumulated amortisation to 31 March 2004	**(17 082)**	(17 082)
Less accumulated impairment from 1 April 2004	**(11 098)**	(11 098)
	76 619	57 246
13.2 Movement for the year		
Balance at beginning of year	**57 246**	64 216
Currency adjustments		1 717
Acquisitions during the year	**15 814**	
Adjustments to purchase considerations	**3 559**	911
Impairments recognised during the year		(9 598)
	76 619	57 246

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 arising after 1 January 2001 has been allocated. The recoverable amount is estimated by using the lower of the value in use method and the fair value less cost to sell. The primary in use valuation is based on the CGUs' return on net operating assets for the current year and those budgeted for the following year. If either the actual or budget returns in the CGU do not exceed the group pre-tax cost of capital, which for South African CGUs is computed at 20%, a detailed three-year forecast done by management is used as the basis for determining the estimated recoverable amount. Appropriate growth and discount rates, given the industry and location of the CGU and its operations, are applied to the forecast and if necessary the fair value less cost to sell is used.

The net book value of goodwill at 30 November 2007 has been allocated to the following CGUs:

	2007 R000	2006 R000
Powermite	**23 102**	19 543
Bougicord	**14 642**	
Elvey Security Technologies in SA	**12 784**	12 784
Varispeed	**11 586**	11 586
Various others	**14 505**	13 333
Total	**76 619**	57 246

Goodwill arising on the acquisition of Powermite includes an element of purchase consideration based on the attainment of targeted levels of profitability for the period ending November 2007. The final adjustment to the goodwill has been made during the current year.

Goodwill arising during the current year to the value of R15 814 000 is still subject to change as the exercise of determining the value of intangible assets is not completed at year-end. Any value of intangible assets will be credited to goodwill.

NOTES TO THE GROUP FINANCIAL STATEMENTS For the year ended 30 November 2007

	2007 R000	2006 R000
14 Deferred taxation		
14.1 Deferred taxation comprises temporary differences arising from:		
Accelerated capital allowances	**(8 067)**	(7 406)
Secondary tax on companies		944
Doubtful debt allowances	**2 153**	1 890
Leave pay accruals	**4 979**	4 057
Other	**2 438**	1 736
Net deferred taxation asset	**1 503**	1 221
14.2 Movement for the year		
Balance at beginning of year	**1 221**	1 547
Raised/(utilised) during the year	**282**	(326)
Balance at end of year	**1 503**	1 221
15 Inventories		
Raw materials and components	**9 328**	10 824
Work in progress	**23 669**	22 527
Finished goods	**8 995**	9 208
Merchandise	**502 087**	409 347
	544 079	451 906
Cost of inventory recognised as an expense in cost of sales	**1 338 595**	1 098 077
Inventory that is expected to be sold after more than 12 months	**85 000**	70 000
Write-down of inventory to net realisable value and losses of inventory	**5 287**	6 284

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.

	2007 R000	2006 R000
16 Accounts receivable		
Trade receivables	**380 527**	338 578
Other amounts receivable	**18 170**	16 039
	398 697	354 617
17 Shareholders' equity		
17.1 Authorised share capital		
40 000 000 (2006: 40 000 000) ordinary shares of 10 cents each	**4 000**	4 000
17.2 Issued share capital		
33 261 438 (2006: 32 501 083) ordinary shares	**3 326**	3 250
Less: 2 507 828 (2006: 2 507 828) ordinary shares held by subsidiary company – 8%	**(251)**	(251)
Net 30 753 610 (2006: 29 993 255) ordinary shares	**3 075**	2 999

17.3 Unissued shares

2 658 000 (2006: 3 068 000) unissued shares have been made available to the employee share incentive scheme. (See note 17.5)

3 250 100 of the unissued shares are under the control of the directors until the next annual general meeting.

	2007 R000	2006 R000
17.4 Retained income		
Income retained in:		
Company	**129 446**	134 336
Subsidiary companies	**587 019**	563 127
	716 465	697 463

17.5 Employee share-based remuneration schemes

Senior employees, including executive directors, participate in two share-based remuneration schemes. They are the share incentive scheme and the share appreciation bonus scheme. Both are equity settled.

In 2006 shareholders authorised the directors to issue up to 18,4% of the issued share capital in terms of all of the share-based payment plans of the company. Shares issued 10 years prior are excluded from this determination.

	Number of shares (000) 2007	2006
Shares issued within the last 10 years in terms of the schemes		
Balance at beginning of year	**2 912**	
Less: shares issued in 1997 that can be re-issued from 30 November 2007	**(210)**	
Add: shares issued in current year	**760**	
Balance at end of year	**3 462**	2 912
Options granted and deferred delivery shares not yet taken up in the share incentive scheme	**896**	1 659
Shares made available to meet obligations in terms of the share appreciation bonus scheme	**798**	793
Shares available to be granted in terms of both schemes in the future	**964**	616
Total specifically authorised to be issued in terms of all schemes – 18,4% of issued shares	**6 120**	5 980

Share incentive scheme

The group used a share incentive scheme as part of the remuneration system for senior employees from 1984. Options granted in terms of this scheme entitle participants to take up 33% of the shares granted at the strike price after three years, 66% after four years and 100% after five years. All shares must be taken up within 10 years of the grant date. This scheme was replaced by the share appreciation bonus scheme in 2006.

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

	Weighted average subscription price in cents 2007	2006	Number of shares (000) 2007	2006
Rights to shares not taken up at beginning of the year	**2 176c**	2 057c	**1 659**	1 896
Shares delivered during the year	**1 899**	1 228	**(760)**	(237)
Forfeited on resignation during the year			**(3)**	
Rights to shares not taken up at end of the year	**2 411c**	2 176c	**896**	1 659
The earliest dates that these shares may be taken up are as follows:				
Exercisable at 30 November 2007	**1 636c**		**54**	
between 1 December 2007 and 30 November 2008	**2 460**		**421**	
between 1 December 2008 and 30 November 2009	**2 460**		**421**	
			896	

The following shares were taken up during the year:

	Average share price in cents 2007	Weighted average subscription price in cents 2007	Number of shares (000) 2007
February	7 524c	**1 144c**	**13**
March	7 304	**2 321**	**122**
April	7 911	**1 337**	**86**
May	8 068	**1 570**	**35**
June	8 148	**2 460**	**3**
July	8 425	**1 400**	**4**
August	8 033	**1 840**	**17**
September	8 898	**1 858**	**20**
October	8 710	**1 959**	**450**
November	8 567c	**1 255**	**10**
		1 899c	**760**

	Weighted average strike price in cents 2007	2006	Number of shares (000) 2007	2006
17.5 Employee share-based remuneration schemes (continued)				
Share appreciation bonus scheme				
The following share appreciation bonus rights have been granted in terms of the scheme that was approved by shareholders in May 2006:				
Rights not taken up at beginning of year	**4 305c**		**793**	
Rights granted during the year	**8 500**	4 305c	**10**	793
Forfeited during the year	**(4 305)**		**(5)**	
Change in strike price during the year	**(330)**			
Rights not taken up at end of year	**4 028c**	4 305c	**798**	793
These rights may be exercised as follows:				
From June 2009 to June 2011			**295**	
From June 2010 to June 2012			**268**	
From June 2011 to June 2013			**231**	
From June 2012 to June 2014			**4**	
			798	

The strike price of the share appreciation rights was reduced by R3,30 in terms of the scheme rules following the declaration of a special dividend of R3,30 in 2007.

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 share units 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 two years of vesting. The number of share units that may be taken up in each tranche is subject to a performance test based on the growth in Hudaco's HEPS during the period exceeding inflation plus 5%.

Cost of share-based payments(1)

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

	Share incentive scheme	Share appreciation bonus scheme Grant 1	Share appreciation bonus scheme Grant 2
Date of grant	17 March 2004	7 June 2006	1 August 2007
Number of rights granted	1 309 000	793 900	10 000
Exercise price (R) – strike price	24,60	39,75(1)	81,70(1)
Share price at grant date (R)	24,60	47,50	80,00
Expected volatility (%)	20,0	25,0	25,0
Expected dividend yield (%)	5,0	3,8	3,85
Risk-free rate (%)	10,2	8,2	9,07
Vesting period (years)	3 to 5	3 to 5	3 to 5
Estimated fair value per right (R)	8,18	13,83(2)	30(2)

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

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

	2007 R000	2006 R000
Employee share-based payment expense included in operating profit		
Expense arising from share incentive scheme	**1 840**	1 867
Expense arising from share appreciation bonus plan	**2 840**	1 181
Total share-based payment expense	**4 680**	3 048

17.6 Non-distributable reserves

R000	Special reserve account	Cash flow hedging reserve	Foreign currency translation reserve	Equity compen-sation reserve	Other shared-based payments	Total
Balance at 30 November 2005	332	(992)	1 051	3 028		3 419
Increase in equity compensation reserve				2 706		2 706
Translation of foreign operations			5 864			5 864
Movement in fair value of cash flow hedges		203				203
Balance at 30 November 2006	332	(789)	6 915	5 734		12 192
Less shares held by subsidiary company	(41)					(41)
Net balance at 30 November 2006	291	(789)	6 915	5 734		12 151
Balance at 30 November 2006	332	(789)	6 915	5 734		12 192
Arising on the introduction of BEE shareholders					37 326	37 326
Increase in equity compensation reserve				5 022		5 022
Translation of foreign operations			216			216
Movement in fair value of cash flow hedges		2 475				2 475
Balance at 30 November 2007	332	1 686	7 131	10 756	37 326	57 231
Less shares held by subsidiary company	(41)					(41)
Net balance at 30 November 2007	291	1 686	7 131	10 756	37 326	57 190

18 Subordinated debenture

Unlisted, subordinated debenture issued by Hudaco Trading (Pty) Ltd, a subsidiary, on 1 August 2007. The debenture carries a fixed interest rate of 10,7% nominal annual compounded quarterly. Interest is paid quarterly in arrears and the capital is repayable in full on 31 August 2017. R54 million of the interest payable up to 31 August 2009 has not been subordinated (see note 23.2). The debenture is secured by a pledge of the group's investment in preference shares (see note 12).

19 Amounts due to vendors of business acquired

Represents the estimated amounts due to vendors of a business acquired in 2005 and includes interest imputed at 7% per annum. The amounts finally payable were subject to adjustment based on earnings of the business up to November 2007. The final adjustment to the amount has been debited to goodwill in the current year.

	2007 R000	2006 R000
20 Accounts payable		
Trade payables	**330 983**	284 282
Fair value of forward exchange contracts (See note 24.6)	**402**	4 558
Other payables and amounts due	**103 034**	92 819
	434 419	381 659
Included in other payables and amounts due are payroll and other accruals.		
21 Dividends		
21.1 Normal dividends		
Dividend number 39 of 140 cents per share declared on 25 January 2007	**45 539**	32 939
The record date was 16 March 2007 and the dividend was paid on 19 March 2007		
Dividend number 40 of 65 cents per share declared on 28 June 2007	**21 562**	16 249
The record date was 12 October 2007 and the dividend was paid on 15 October 2007		
Dividends paid to subsidiary company	**(5 141)**	(3 812)
	61 960	45 376
21.2 Special dividend		
Dividend number 41 of 330 cents per share declared on 28 June 2007	**109 774**	
The record date was 14 December 2007 and the dividend was paid on 18 December 2007		
Dividend paid to subsidiary company	**(8 276)**	
	101 498	

21.3 On 31 January 2008 the directors declared dividend number 42 of 195 cents per share, being the final dividend in respect of 2007. The record date will be 14 March 2008 and the dividend will be paid on 17 March 2008. This dividend has not been included as a liability in these financial statements.

NOTES TO THE GROUP FINANCIAL STATEMENTS For the year ended 30 November 2007

	2007 R000	2006 R000
22 Notes to cash flow statement		
22.1 Increase in working capital		
Increase in inventories	**(82 518)**	(76 860)
Increase in accounts receivable	**(42 705)**	(75 373)
Increase in accounts payable	**51 570**	85 670
Translation gain on working capital in foreign operations	**2 465**	3 977
	(71 188)	(62 586)
22.2 Finance costs		
Finance costs per income statement	**(80 742)**	(5 648)
Imputed on amounts due to vendors of businesses acquired	**594**	935
	(80 148)	(4 713)
22.3 Taxation paid		
Amounts owed at beginning of the year	**(24 428)**	(13 395)
Current tax charge	**(73 770)**	(69 722)
Prior year (under) over provision	**(844)**	997
Secondary tax on companies	**(11 259)**	(6 592)
Foreign tax charge	**(856)**	(644)
Capital gains tax	**(17)**	(9)
Amounts owed at end of the year	**30 094**	24 428
	(81 080)	(64 937)
22.4 Dividends paid		
To Hudaco shareholders	**(61 960)**	(45 376)
To minorities	**(5 360)**	(8 800)
	(67 320)	(54 176)
22.5 Investment in new business		
Plant and equipment	**(1 430)**	
Goodwill	**(15 814)**	
Inventories	**(9 655)**	
Accounts receivable	**(1 375)**	
Cash and cash equivalents	**(13)**	
Accounts payable	**1 190**	
Purchase consideration	**(27 097)**	
Cash and cash equivalents	**13**	
Net cash flow	**(27 084)**	
22.6 Cash flow per share		
Cash flow from operations	**184 190**	129 113
Minority participation	**(14 383)**	(1 003)
Cash flow from operations attributable to ordinary shareholders	**169 807**	128 110
Cash flow per share (cents)	**563**	429

	2007 R000	2006 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.

	2007 R000	2006 R000
At the balance sheet date the group had outstanding commitments under these operating leases in respect of fixed properties which fall due as follows:		
Within one year	**27 290**	16 058
In second to fifth years	**48 601**	20 601
After five years		232
	75 891	36 891

23.2 Debenture break fee

The group has agreed to pay a break fee should the debenture issued by Hudaco Trading (Pty) Ltd be repaid before 28 August 2009. The present value of such fee is R49,6 million, which declines at approximately R7 million per quarter from 1 December 2007.

23.3 Property, plant and equipment

The group has budgeted to spend R32,2 million to acquire property, plant and equipment in 2008, none of which is committed or contracted for. Total capital expenditure will be financed by net cash flow from operations and the utilisation of cash.

23.4 Pension fund contributions

In 1991 one of the group's retirement funds converted from a defined benefit to a defined contribution fund and adopted a new set of rules. The then administrators and underwriters advised that the new rules authorised the employer to continue with the contribution holiday from 1992 to 2001. The FSB is of the opinion that the new rules did not allow approximately R1,7 million per annum of the employer contribution holiday. The fund trustees, the employer and the administrators at that time have taken the FSB decision on appeal. As the outcome of this appeal is uncertain, this matter has been treated as a contingent liability. The employer has a number of remedies available to recover any refund that may have to be made to the fund should the appeal be unsuccessful.

24 Financial risk management

The group's non-derivative financial instruments consist primarily of investment in preference shares, accounts receivable and payable, deposits with, and borrowings from, banks and a subordinated debenture. The book value of these financial instruments approximates their fair value. Derivative financial instruments are used by the group for hedging purposes to mitigate foreign currency risk and consist of forward exchange contracts. The group does not speculate or trade in derivative financial instruments.

24.1 Treasury risk management

Hudaco's central treasury is responsible for the procurement of all bank funding, the short term investment of cash and the management of foreign currency exposure. All these activities are performed within clear guidelines set by the board, and exposure and limits are reviewed at quarterly board meetings.

24.2 Foreign currency management

The group imports 65% 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 10% and 30%) of orders placed but not yet shipped. Order lead times vary between a few days and nine months. The objective is to have forward cover in place well before goods are shipped.

Cash flow hedges – at 30 November 2007 the group had entered into the following forward exchange contracts relating to forecast transactions, ie orders placed on suppliers but not yet shipped. These contracts will be utilised for settlement of shipments received during the next two months:

	Year-end spot rate	**Foreign amount 000**	**Contract rate***	**Rand equivalent R000**
Japanese Yen	16,16	152 308	17,04	8 938
US Dollar	6,83	2 935	6,64	19 490
Pounds Sterling	14,09	494	13,91	6 870
Euro	10,07	1 507	9,70	14 626
Total cost of contracts				49 924
Fair value – Rand equivalent of the above contracts at year-end spot rates				51 610
Gain recognised directly in shareholders' equity (See note 17.6)				1 686

*The contract rate discounted to 30 November 2007 based on the forward points ruling at year-end – which approximates 7,4% per annum

24 Financial risk management (continued)

24.3 Interest rate management

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

24.4 Credit risk management

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

At group level trade accounts receivable 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 accounts receivable and does so through ongoing credit evaluations and credit control policies. Management does not consider there to be any material credit risk exposure that is not already covered by an impairment for doubtful debts.

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

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

24.5 Liquidity risk management

The group manages liquidity risk by monitoring forecast cash flows and ensuring that adequate unutilised borrowing facilities are maintained.

There is no restriction on borrowing powers in terms of the articles of association and at 30 November 2007 the group's banking facilities substantially exceeded its forecast requirements for the forthcoming year.

	2007	2006
	R000	R000
24.6 Fair value of financial instruments		
The gain (loss) arising on the fair value adjustment on all forward exchange contracts is set out below:		
Cash flow hedges (See note 24.2)	**1 686**	(789)
Fair value hedges (on contracts of R203 million at year-end spot rates)	**(2 088)**	(3 769)
	(402)	(4 558)

The book value of all non-derivative financial instruments approximates their fair value at 30 November 2007.

25 Retirement benefits

It is the policy of the group to provide for employees' retirement benefits by contributing to separate, defined contribution pension or provident plans which are independent entities managed by trustees and subject to the Pension Funds Act, 1956. Contributions to retirement funding during the year amounted to R17 320 000 (2006: R14 880 000). All permanent employees are required to become members of one of these plans unless they are obliged by legislation to be members of various industry funds.

The group's primary fund's surplus apportionment plan has been approved by the Financial Services Board (FSB) and much of the surplus has been distributed to former members. The balance of the funds have actuarial surpluses at their June 2004 valuation date and are in the process of finalising their surplus apportionment exercises. The principal officer of these funds has advised that he is not aware of any material improper use of surpluses that may have to be refunded by the employer, but this is still subject to confirmation on the completion of the surplus apportionment exercises.

26 Post-retirement medical costs

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

27 Directors' interest and remuneration

27.1 Interest of directors in the share capital of the company

The total direct and indirect beneficial and non-beneficial interest of directors in the shares of the company is:

2007	Direct	Beneficial indirect	Indirect and non-beneficial
PL Campbell*		5 000	
SJ Connelly	275 634		1 680
GE Gardiner		90 000	
PM Poole	210 942		
RT Vice*	4 000		
	490 576	95 000	1 680

*Non-executive

The executive directors also hold rights in terms of the share incentive and share appreciation bonus schemes to take delivery of 333 333 shares at an average price of R24,60 per share and 235 000 share appreciation rights at a price of R39,75 per right.

The shareholdings above have not changed between 30 November 2007 and the date of the notice of the annual general meeting, which forms part of this annual report.

No director holds in excess of 1% of the company's issued share capital.

YKN Molefi holds 0,83% of the share capital of Hudaco Trading (Pty) Ltd.

2006	Direct	Beneficial indirect	Indirect and non-beneficial
PL Campbell*		5 000	
SJ Connelly	162 300		1 680
GE Gardiner		35 000	
PM Poole	140 942		
	303 242	40 000	1 680

*Non-executive

At 30 November 2006 executive directors also held rights in terms of the share incentive scheme to take delivery of 586 667 shares at an average price of R22,82 and 235 000 share appreciation rights at a price of R43,05 per right.

27.2 Directors' interest in share incentive and share appreciation bonus schemes

Share incentive scheme

The directors have entered into the following deferred delivery agreements:

2007	Outstanding shares beginning of year	Strike price	Granted during the year	Delivered during the year	Delivery date	Market price on date of delivery	Outstanding shares end of year	Date granted	Date expires	Gains on shares taken up(1) R000
SJ Connelly	246 667			(113 334)			133 333			7 464
	46 667	12,55		(46 667)	Oct '07	85,50		22 Apr '02	21 Apr '12	3 404
	200 000	24,60		(66 667)	Oct '07	85,50	133 333	17 Mar '04	16 Mar '14	4 060
GE Gardiner	170 000			(70 000)			100 000			4 504
	20 000	12,55		(20 000)	Oct '07	85,50		22 Apr '02	21 Apr '12	1 459
	150 000	24,60		(50 000)	Oct '07	85,50	100 000	17 Mar '04	16 Mar '14	3 045
PM Poole	170 000			(70 000)			100 000			4 504
	20 000	12,55		(20 000)	Oct '07	85,50		22 Apr '02	21 Apr '12	1 459
	150 000	24,60		(50 000)	Oct '07	85,50	100 000	17 Mar '04	16 Mar '14	3 045
Total	586 667			(253 334)			333 333			16 472
2006										
SJ Connelly	246 667						246 667			
	46 667	12,55					46 667	22 Apr '02	21 Apr '12	
	200 000	24,60					200 000	17 Mar '04	16 Mar '14	
GE Gardiner	190 000			(20 000)			170 000			672
	40 000	12,55		(20 000)	Apr '06	46,14	20 000	22 Apr '02	21 Apr '12	672
	150 000	24,60					150 000	17 Mar '04	16 Mar '14	
PM Poole	230 000			(60 000)			170 000			1 863
	20 000	10,75		(20 000)	July '06	43,00				645
	60 000	12,55		(40 000)	July '06	43,00	20 000	22 Apr '02	21 Apr '12	1 218
	150 000	24,60					150 000	17 Mar '04	16 Mar '14	
Total	666 667			(80 000)			586 667			2 535

Delivery must be taken within 10 years of the date granted and one third may be taken in each year after three, four and five years respectively.

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

Share appreciation bonus scheme

In July 2006, the directors were granted the following share appreciation rights at a strike price of R43,05. The strike price was reduced to R39,75 in terms of the scheme rules following the declaration of the special dividend of R3,30 per share.

SJ Connelly – 175 000 share units in three tranches, the benefit to be determined between July 2009 and July 2013.
GE Gardiner – 20 000 share units in one tranche, the benefit to be determined between July 2009 and July 2011.
PM Poole – 40 000 share units in two tranches, the benefit to be determined between July 2009 and July 2012.

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 share units 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 two years of vesting. The number of share units that may be taken up in each tranche is subject to a performance test based on the growth in Hudaco's HEPS during the period, exceeding inflation plus 5%.

27.3 Directors' emoluments

R000	For services as director	Paid by subsidiaries for managerial services: Fixed remu-neration	Retirement fund con-tributions	Other benefits	Performance-related remuneration	Share-based payments[1]	**Total remu-neration**
2007							
Non-executive directors	413						**413**
PL Campbell	180						**180**
JB Gibbon	112						**112**
YKN Molefi	86						**86**
RT Vice[2]	35						**35**
Executive directors		4 489	539	477	6 665	1 672	**13 842**
SJ Connelly		2 130	252	182	3 322	942	**6 828**
GE Gardiner		1 179	144	142	1 499	331	**3 295**
PM Poole		1 180	143	153	1 844	399	**3 719**
Total 2007	413	4 489	539	477	6 665	1 672	**14 255**
2006							
Non-executive directors	382						**382**
PL Campbell	170						**170**
JB Gibbon	105						**105**
PG Joubert[3]	27						**27**
YKN Molefi	80						**80**
Executive directors		4 114	495	463	4 415	1 174	**10 661**
SJ Connelly		1 951	231	179	2 174	584	**5 119**
GE Gardiner		1 094	134	138	1 034	281	**2 681**
PM Poole		1 069	130	146	1 207	309	**2 861**
Total 2006	382	4 114	495	463	4 415	1 174	**11 043**

(1) The fair value of options and share appreciation bonus rights granted is the annual expense determined by IFRS 2.
(2) Appointed in June 2007.
(3) Retired in March 2006.

28 Related party transactions

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

Hudaco has no holding company, nor is there a major shareholder that has a significant influence over the group. Group companies have entered into transactions in the ordinary course of business with certain financial institutions that are also shareholders, or their affiliates. In the main, these transactions relate to property leases and financial services – banking. All such transactions have been conducted 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 62.

Details of transactions between the group and other related parties are disclosed below.

Key management personnel are defined as directors of the company and members of the executive committee and their domestic partners and children.

	2007 R000	2006 R000
Compensation of key management personnel		
Short-term employee benefits	**24 642**	20 762
Share-based payments(1)	**3 367**	2 276
	28 009	23 038

(1) The fair value of options and share appreciation bonus rights granted is the annual expense determined by IFRS 2.

Directors

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

	2007 R000	2006 R000
Interest in contracts and transactions with key management personnel		
Goods sold to key management at staff prices	**15**	155
Goods bought from companies controlled by key management	**1 179**	396
Interest paid to key management		30
Outstanding amounts to key management in terms of all transactions, excluding those for services rendered		102

Specific contracts

G Dunford, a member of the executive committee, sold his business to the group in 2002. He retained his 90% interest in a company that is the landlord of the premises occupied by the business. Rental paid to the company amounted to R716 266 (2006: R657 000). The business has entered into a three-year lease commencing on 1 January 2007 at a straight-line annual rental of R788 000.

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

SEGMENT ANALYSIS

	Group		Head office and intergroup eliminations[1]		Bearings and Power Transmission products		Powered products		Security equipment	
R million	**2007**	2006	**2007**	2006	**2007**	2006	**2007**	2006	**2007**	2006
Income statement										
Turnover	**2 227**	1 838		(1)	**1 273**	1 049	**589**	477	**365**	313
EBITDA	**330**	245	**(23)**	(16)	**181**	124	**126**	100	**46**	37
Depreciation less recoupments	**12**	11			**8**	8	**2**	2	**2**	1
Operating profit	**318**	234	**(23)**	(16)	**173**	116	**124**	98	**44**	36
Cost to introduce BEE shareholders	**(44)**		**(44)**							
Impairment of goodwill		(9)								(9)
Profit before interest and dividends received	**274**	225	**(67)**	(16)	**173**	116	**124**	98	**44**	27
Balance sheet										
Property, plant and equipment	**74**	67			**52**	47	**14**	13	**8**	7
Goodwill	**77**	57			**64**	44			**13**	13
Deferred taxation – net	**1**	1		3	**(1)**	(2)	**1**		**1**	
Inventories	**544**	452			**342**	275	**145**	126	**57**	51
Accounts receivable	**399**	355	**1**	2	**239**	213	**98**	82	**61**	58
Accounts payable	**(435)**	(382)	**(10)**	(7)	**(217)**	(185)	**(156)**	(142)	**(52)**	(48)
Taxation	**(30)**	(24)	**9**	(5)	**(8)**	(10)	**(24)**	(4)	**(7)**	(5)
Net operating assets	**630**	526	**–**	(7)	**471**	382	**78**	75	**81**	76
Additional information										
Average net operating assets	**612**	545	**(14)**	2	**446**	387	**100**	79	**80**	77
Capital expenditure	**21**	18			**14**	9	**4**	6	**3**	3
Operating profit margin (%)	**14,3**	12,7			**13,6**	11,1	**21,1**	20,5	**12,1**	11,5
Return on average NOA (%)	**51,9**	42,9			**38,8**	30,0	**124,0**	124,1	**55,0**	46,8
Number of employees	**2 149**	2 029	**20**	22	**1 586**	1 501	**344**	332	**199**	174

(1) Includes residual of discontinued operations.

EBITDA – earnings before interest, taxation, depreciation and amortisation.
NOA – net operating assets.

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

This segment analysis deals only with operating profit and net operating assets. It therefore excludes interest and dividends received as well as investments, cash balances and interest bearing debt.

COMPANY FINANCIAL STATEMENTS

Hudaco Industries Limited

Balance sheet
at 30 November 2007

	Notes	2007 R000	2006 R000
Assets			
Non-current assets			
Interest in subsidiary companies	29.1	**273 549**	153 858
Current assets		**293**	273
Accounts receivable		**286**	266
Bank balances		**7**	7
Total assets		**273 842**	154 131
Equity and liabilities			
Shareholders' equity		**163 221**	153 670
Current liabilities		**110 621**	461
Shareholders for dividend		**109 774**	
Accounts payable and taxation		**847**	461
Total equity and liabilities		**273 842**	154 131

Income statement
for the year ended 30 November 2007

	2007 R000	2006 R000
Dividends received from subsidiaries	**173 044**	48 962
Interest received – principally from subsidiaries	**762**	755
Operating costs	**(1 429)**	(1 015)
Profit before taxation	**172 377**	48 702
Taxation – South African normal tax	**392**	94
Profit after taxation	**171 985**	48 608

Statement of changes in equity
for the year ended 30 November 2007

R000	Share capital	Share premium	Special reserve account*	Retained income	Share-holders' equity
Balance at 30 November 2005	3 227	12 864	332	134 916	151 339
Attributable profit for the year				48 608	48 608
Issue of 237 104 shares	23	2 888			2 911
Dividends to shareholders				(45 376)	(45 376)
Dividends to subsidiary company				(3 812)	(3 812)
Balance at 30 November 2006	3 250	15 752	332	134 336	153 670
Attributable profit for the year				171 985	171 985
Issue of 760 356 shares	76	14 365			14 441
Dividends to shareholders				(163 458)	(163 458)
Dividends to subsidiary company				(13 417)	(13 417)
Balance at 30 November 2007	3 326	30 117	332	129 446	163 221

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

COMPANY FINANCIAL STATEMENTS

	2007 R000	2006 R000
Cash flow statement		
for the year ended 30 November 2007		
Cash generated from operating activities		
Dividends received	**173 044**	48 962
Operating costs paid	**(1 429)**	(1 015)
(Increase) decrease in working capital	**(22)**	20
Cash generated from operating activities	**171 593**	47 967
Finance revenue	**762**	755
Taxation paid	**(4)**	(440)
Cash flow from operations	**172 351**	48 282
Dividends	**(67 101)**	(49 188)
Net cash retained (applied)	**105 250**	(906)
Cash applied to investment activities		
Increase in loans to subsidiary companies	**(119 691)**	(2 005)
Net cash applied	**(14 441)**	(2 911)
Cash flow from financing activities		
Increase in shareholder funding	**14 441**	2 911
Net financing raised	**14 441**	2 911

29 Notes to the company financial statements

29.1 Interest in subsidiary companies

	2007 R000	2006 R000
Shares at cost less amounts written off	**134 956**	134 956
Net loans to subsidiaries	**138 593**	18 902
Loans to subsidiaries	**138 760**	18 904
Loans from subsidiaries	**(167)**	(2)
	273 549	153 858

These loans are unsecured and interest free with no fixed terms of repayment.

The investment in a subsidiary company is carried at cost less impairment losses where applicable.

29.2 Restatement of comparative figures – in 2006 R41,3 million investment in shares of Quadrant Investments Ltd and R0,1 million loan to that company were erronously reflected as a loan to Hudaco Investment Company Ltd. The comparative figures have been restated accordingly. This does not have any effect on the net investments in subsidiaries or the reported earnings for the years ended 30 November 2006 and 30 November 2007.

29.3 Auditors' remuneration

	2007 R000	2006 R000
Audit fees for the current year	**62**	60

29.4 Contingent liability

	2007 R000	2006 R000
Guarantee in respect of a potential break fee due by a subsidiary	**49 600**	

The company has guaranteed the senior banking facilities of Hudaco Trading (Pty) Ltd. The maximum exposure in this regard is approximately R400 million and the exposure is nil at the year-end.

PRINCIPAL SUBSIDIARIES

At 30 November 2007

R unless indicated otherwise	Issued share capital 2007	Group's effective interest 2007 %	Group's effective interest 2006 %	Note 3	Interest of holding company Book value of shares 2007 R000	Book value of shares 2006 R000	Loans owing by/(to) 2007 R000	Loans owing by/(to) 2006 R000
Subsidiaries								
Hudaco Trading (Pty) Ltd[1]	**2 000**	**85**	100		**2**	2	**(167)**	(2)
Abes Technoseal*		**85**	100	a				
Ampco*		**85**	100	a				
Angus Hawken*		**85**	100	a				
Bauer Geared Motors*		**85**	100	b				
Bearings International*		**85**	100	a				
Belting Supply Services*		**85**	100	a				
BEP Bestobell and Mather & Platt*		**85**	100	b				
Bosworth*		**85**	100	a				
Elvey Security Technologies*		**85**	100	c				
Ernest Lowe*		**85**	100	a				
Powermite*		**85**	100	a				
Rutherford*		**85**	100	a				
Varispeed*		**85**	100	b				
Hudaco Investment Company Ltd[2]	26 160	**100**	100		**48 158**	48 158	**138 647**	18 791
Barbara Road Investments (Pty) Ltd	100	**100**	100					
DD Power Holdings (Pty) Ltd	300 000	**70**	70					
DD Power (Pty) Ltd	7 450 000	**70**	70					
Quadrant Investments Ltd (Guernsey)[4]	$7 424				**42 681**	42 681	**113**	113
Elvey Group UK Ltd	£3 000	**100**	100					
Smithford Company Ltd (Guernsey)	£1 312	**100**	100					
Valhold Ltd	959 841	**100**	100		**37 692**	37 692		
Valard Ltd	874 149	**100**	100		**6 423**	6 423		
Interest in subsidiaries					**134 956**	134 956	**138 593**	18 902

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

The subsidiaries' aggregate income after taxation attributable to the holding company, for the year ended 30 November 2007, is R218,3 million (2006: R150,2 million), losses R34,4 million (R2006: R nil). The losses of R34,4 million include R37,3 million cost to introduce BEE shareholders in Hudaco Trading (Pty) Ltd.

*Denotes an operating division

(1) The Hudaco Group was restructured on 1 August 2007 to facilitate the introduction of black shareholders. The restructuring consolidated all the South African businesses (excluding DD Power), which at that time were divisions of other group subsidiaries (see note 3), into a wholly owned dormant subsidiary, Hudaco Trading (Pty) Ltd.

On 28 August 2007 15% of the shares in this company were issued to the group's BEE partners – details of whom are set out on page 9.

(2) Hudaco Trading Ltd changed its name during the financial year to Hudaco Investment Company Ltd and disposed of all of the divisions marked (a) above to Hudaco Trading (Pty) Ltd.

(3) These businesses were operating divisions of the following wholly owned subsidiaries until the group restructure on 1 August 2007:
- a Hudaco Investment Company Limited (formerly Hudaco Trading Limited)
- b Hudaco Transmission (Pty) Ltd
- c Elvey Security Technologies (Pty) Ltd

(4) Restatement of comparative figures – see note 29.2 on page 61.

SHAREHOLDER INFORMATION

At 30 November 2007

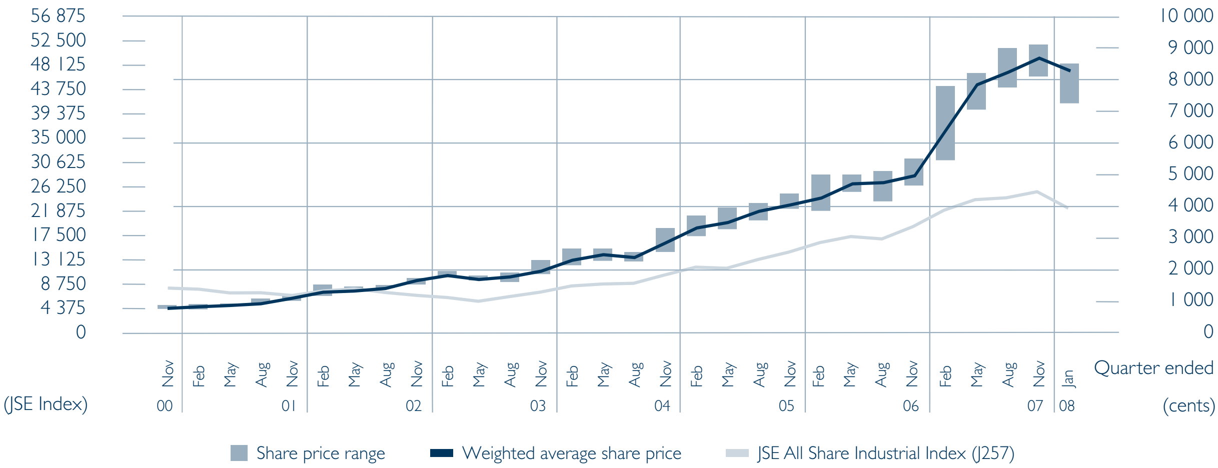
Shareholder analysis	Number of shares (000) 2007	% issued shares 2007	Number of share-holders
Portfolio size			
1 – 1 000	**799**	**2,6**	1 884
1 001 – 5 000	**1 931**	**6,3**	744
5 001 – 10 000	**1 250**	**4,1**	169
10 001 – 100 000	**6 227**	**20,2**	206
Over 100 000	**20 547**	**66,8**	60
Total(1)	**30 754**	**100,0**	3 063
Category			
Individuals	**5 806**	**18,9**	2 463
Financial institutions and pension funds	**22 933**	**74, 6**	313
Banks and nominee companies	**391**	**1,3**	34
Other corporate bodies	**1 624**	**5,2**	253
Total(1)	**30 754**	**100,0**	3 063
Shareholder spread(1)			
Public	**26 305**	**85,5**	3 033
Non-public	**4 449**	**14,5**	30
Directors of the company and its subsidiaries(2)	**938**	**3,0**	22
Associates of the above	**82**	**0,3**	7
Shareholders with an interest of 10% or more in the company	**3 429**	**11,2**	1
Total(1)	**30 754**	**100,0**	3 063
Major shareholders			
Sanlam(3)	**6 597**	**21**	
Old Mutual(3)	**6 445**	**21**	
Melville Douglas(3)	**1 879**	**6**	
Stanlib(3)	**1 779**	**6**	
Rand Merchant Bank(3)	**1 433**	**5**	
Investec(3)	**1 043**	**3**	
Total	**19 176**	**62**	

(1) Excludes 2 507 828 shares repurchased by a subsidiary company.
(2) A list of the shareholdings of senior management is available, on request, from the group secretary.
(3) Includes assets managed on behalf of specific clients.

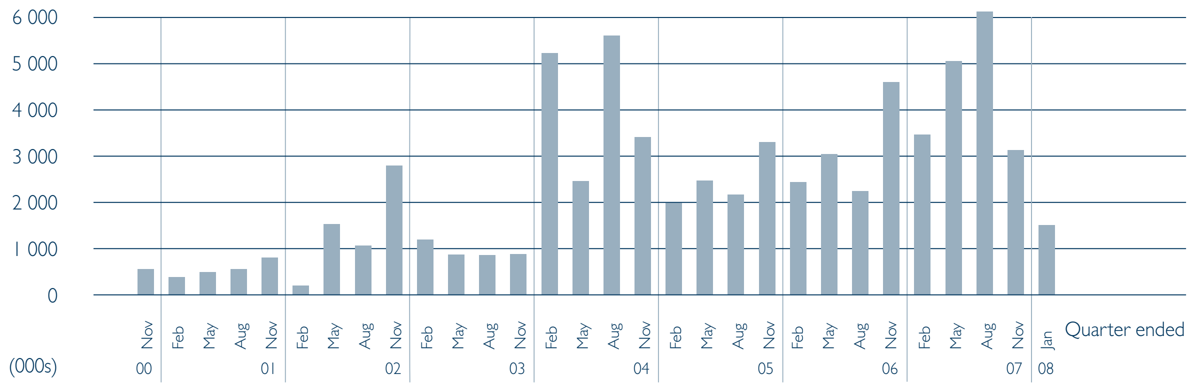
SHARE INFORMATION

For the year ended 30 November 2007

Share price history



Volume traded on JSE



JSE STATISTICS

For the year ended 30 November 2007

The following table sets out statistics of the JSE	**2007**	2006	2005	2004	2003	2002	2001
Market price (cents)	**8 500**	5 400	3 985	3 290	2 300	1 740	1 105
NAV per share (cents)*	**2 623**	2 429	2 056	1 720	1 563	1 390	1 187
Number of shares in issue (000)*	**30 754**	29 993	29 756	29 438	29 003	28 490	28 019
Market capitalisation (Rm)*	**2 784**	1 620	1 186	968	667	496	310
Price/earnings ratio (times)	**14,3**	12,4	10,2	8,6	6,4	6,6	6,3
All Share Industrial Index PE ratio (J257)	**16,3**	15,4	13,3	13,4	12,6	11,4	13,4
Dividend yield (%)	**2.4**	2,8	3,4	3,8	4,7	4,7	5,2
All Share Industrial Index dividend yield (J257) (%)	**1,9**	2,1	2,2	2,1	2,5	2,5	1,9
Annual trade in Hudaco shares							
Number of transactions recorded	**4 967**	3 081	2 919	3 076	992	425	307
Volume of shares traded (000)	**17 682**	12 362	9 923	16 744	3 793	5 572	2 215
% of issued shares traded*	**54**	41	33	57	13	18	7
Value of shares traded (R000)	**1 389 609**	584 747	369 207	412 704	68 566	83 765	21 034

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

Hudaco

NOTICE OF ANNUAL GENERAL MEETING

Hudaco Industries Limited

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

Notice is hereby given that the 23rd annual general meeting of shareholders of Hudaco Industries Limited will be held at Hudaco Park, 190 Barbara Road, Elandsfontein, Gauteng at 11:00 on Thursday, 20 March 2008, for the following purposes:

1 To receive and adopt the annual financial statements for the year ended 30 November 2007.

2 To elect directors in place of the following who are retiring by rotation in terms of the company's articles of association. The retiring directors are eligible and offer themselves for re-election.
 2.1 YKN Molefi
 2.1 PM Poole
 2.2 RT Vice
 A brief CV giving details of directors standing for re-election can be found on pages 4 and 5.

3 To ratify the appointment of any director to the board between the date of this notice and the annual general meeting as required in terms of the company's articles of association.

4 To place unissued shares, other than those held in reserve for the share incentive scheme, not exceeding 10% in number of the issued share capital of the company at the date of this meeting, under the control of the directors until the next annual general meeting, subject to the provisions of the Companies Act, 61 of 1973, as amended, the articles of association of the company and requirements of the JSE Limited ("JSE").

5 To approve the remuneration of non-executive directors for the year ending 30 November 2008 on the following basis:

Type of fee	Fee for the year ended 30 November 2007	**Proposed fee for the year ending 30 November 2008**
Group board		
Chairman of the board*	180 000	**220 000**
Board member	70 000	**85 000**
Audit and risk management committee		
Chairman of the committee	42 000	**60 000**
Committee member	16 000	**40 000**
Remuneration committee		
Committee member	16 000	**25 000**

*Includes membership of the audit and risk management and remuneration committees.

Special business

Special resolution

6 To consider and, if deemed fit, to pass with or without modification, the following special resolution:
"RESOLVED THAT, subject to the Listing Requirements of the JSE, the directors of the company be and are hereby authorised in their discretion to procure that the company or subsidiaries of the company acquire by purchase on the JSE ordinary shares issued by the company provided that:

- the number of ordinary shares acquired in any one financial year shall not exceed 10% of the ordinary shares in issue at the date on which this resolution is passed;
- this authority shall lapse on the earlier of the date of the next annual general meeting of the company or the date 15 months after the date on which this resolution is passed;
- the price paid per ordinary share may not be greater than 10% above the weighted average of the market value of the ordinary shares for the five business days immediately preceding the date on which a purchase is made;
- the number of shares purchased by subsidiaries of the company shall not exceed 10% in the aggregate of the number of issued shares in the company at the relevant times;
- the repurchase of securities will be effected through the main order book operated by the JSE trading system and done without any prior understanding or arrangement between the company and the counterparty;
- after such repurchase the company will still comply with paragraphs 3.37 to 3.41 of the JSE Listing Requirements concerning shareholder spread requirements;
- the company or its subsidiaries will not repurchase securities during a prohibited period as defined in paragraph 3.67 of the JSE Listing Requirements unless they have in place a repurchase programme where the dates and quantities of securities to be traded during the relevant period are fixed (not subject to any variation) and full details of the programme have been disclosed in an announcement over SENS prior to the commencement of the prohibited period;
- when the company has cumulatively repurchased 3% of the initial number of the relevant class of securities, and for each 3% in aggregate of the initial number of that class acquired thereafter, an announcement will be made;
- the company appoints only one agent to effect any repurchase(s) on its behalf;
- the company and the group will be able to pay their debts in the ordinary course of business for a period of 12 months from the company first acquiring securities under this general authority;
- recognised and measured in accordance with the accounting policies used in the latest audited annual group financial statements, the assets of the company and the group will exceed the liabilities of the company and the group for a period of 12 months from the company first acquiring securities under this general authority;
- the ordinary capital and reserves of the company and the group will be adequate for the purposes of the business of the company and the group for a period of 12 months from the company first acquiring securities under this general authority,

NOTICE OF ANNUAL GENERAL MEETING

- the working capital of the company and the group will be adequate for the purposes of the business of the company and the group for a period of 12 months from the company first acquiring securities under this general authority; and
- upon entering the market to proceed with the repurchase the company's sponsor will have complied with its responsibilities contained in Schedule 25 of the JSE Listing Requirements".

Reason and effect

The reason for this special resolution is to authorise the directors, if they deem it appropriate in the interests of the company, to procure that the company or subsidiaries of the company acquire or purchase ordinary shares issued by the company subject to the restrictions contained in the above resolution.

The effect of this special resolution will be to authorise the directors of the company to procure that the company or subsidiaries of the company acquire or purchase shares issued by the company on the JSE.

At the present time the directors have no specific intention with regard to the utilisation of this authority which will be used only if the circumstances are appropriate. If the authority is exercised, the company will ensure that the company's sponsor has complied in writing with its responsibilities contained in section 2.12 and schedule 25 of the Listing Requirements of the JSE.

Additional disclosure in terms of Section 11.26 of the JSE Listing Requirements

The JSE Listing Requirements require the following disclosures, which are contained elsewhere in the annual report of which this notice forms part:

– directors and management – pages 4 and 5
– major shareholders of Hudaco – page 63
– directors' interests in securities – page 55
– share capital of the company – page 48.

Material changes

There have been no material changes in the financial or trading position of Hudaco and its subsidiaries between Hudaco's financial year-end and the date of this notice.

Litigation statement

The directors, whose names are given on pages 4 and 5 of the annual report of which this notice forms part, are not aware of any legal or arbitration proceedings, including proceedings that are pending or threatened of which the company is aware except for the contingent liabilities in note 23 that may have or have in the previous year had a material effect on the group's financial position.

Directors' responsibility statement

The directors, whose names are given on pages 4 and 5 of the annual report, collectively and individually accept full responsibility for the accuracy of the information pertaining to the special resolution and certify that to the best of their knowledge and belief there are no facts that have been omitted that would make any statement false or misleading, and that all reasonable enquiries to ascertain such facts have been made and that this resolution contains all such information.

Voting and proxies

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

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

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

Members who have dematerialised their shares through a central securities depositary participant ("CSDP") or broker and wish to attend the annual general meeting must instruct their CSDP or broker to provide them with a letter of representation, or they must provide the CSDP or broker with their voting instruction in terms of the relevant custody agreement/mandate entered into between them and the CSDP or broker.

Completed forms must be returned to the transfer secretaries, Computershare Investor Services 2004 (Pty) Limited, Ground Floor, 70 Marshall Street, Johannesburg 2001 (PO Box 61051, Marshalltown 2107) to be received by not later than 24 hours before the annual general meeting (excluding Saturdays, Sundays and public holidays).

By order of the board

MMM Nkumanda
Group secretary

31 January 2008

Hudaco

FORM OF PROXY

To

Computershare Investor Services 2004 (Pty) Limited
70 Marshall Street Johannesburg
PO Box 61051 Marshalltown 2107
Fax +27 11 370 5390

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

This proxy form should be completed only by shareholders who are
- **holding shares in certificated form, or**
- **recorded on the sub-register in electronic form in "own name"** (see overleaf, note 1)

To be received by no later than 11:00 on Wednesday, 19 March 2008.

For use by members of Hudaco at the annual general meeting of Hudaco to be held on **Thursday, 20 March 2008** at Hudaco Park, 190 Barbara Road, Elandsfontein, Gauteng ("the annual general meeting") at 11:00.

I/We ______________________________

of (address) ______________________________

being the holder of ______________ ordinary shares in Hudaco do hereby appoint (see note 1):

1 ______________ or failing him 2 ______________ or failing him

3 the chairman of the general meeting,

as my/our proxy to vote 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 of 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 the proxy should vote and then sign in the space provided.
(See note 3 overleaf):

Resolution	For	Against	Abstain
1 To receive and adopt the annual financial statements.			
2 To re-elect retiring directors:			
2.1 YKN Molefi			
2.2 PM Poole			
2.3 RT Vice			
3 To ratify the appointment of directors appointed after 31 January 2008.			
4 To place certain unissued shares under the control of the directors.			
5 To approve the remuneration of non-executive directors.			
6 Special resolution giving a general authority for the company to repurchase its own shares.			

Signed at ______________ on ______________ 2008

Signature(s) ______________________________

Assisted by me (where applicable) ______________________________

NOTES TO THE FORM OF PROXY

1 Members 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 member may insert the name of a proxy or the names of two alternative proxies of the member's choice in the space provided. The person whose name appears first on the form of proxy and who is present at the annual general meeting will be entitled to act as proxy to the exclusion of those whose names follow.

3 A member's instructions to the proxy must be indicated by "X" in the appropriate box provided on the proxy form. Failure to comply with the above will be deemed to authorise the proxy to vote or to abstain from voting at the annual general meeting as he/she deems fit in respect of all the member's votes exercisable at the meeting.

4 The completion and lodging of this form of proxy will not preclude the member from attending the annual general meeting and speaking and voting in person thereat to the exclusion of any proxy appointed in terms hereof should the member wish to do so. (See note 1 above.)

5 The chairman of the annual general meeting may reject or accept any proxy form that is completed and/or received, other than in accordance with these notes. Proxy forms received by way of facsimile will be acceptable.

6 Each member is entitled to appoint one or more proxies (none of whom needs to be a member of Hudaco) to attend, speak and vote in place of that member at the annual general meeting.

7 Any alteration to this form of proxy, other than a deletion of alternatives, must be initialled by the signatories.

8 Documentary evidence establishing the authority of a person signing this form of proxy in a representative capacity must be attached to this form of proxy unless previously recorded by Hudaco.

9 Where there are joint holders of ordinary shares:

a any one holder may sign the form of proxy;

b the vote of the senior (for that purpose seniority will be determined by the order in which the names of members appear in Hudaco's register of members) who tenders a vote (whether in person or by proxy) will be accepted to the exclusion of the vote/s of the other joint shareholder/s.

10 Forms of proxy should be lodged with or posted to the transfer secretaries, Computershare Investor Services 2004 (Pty) Limited.

Hand deliveries to:
Computershare Investor Services 2004 (Pty) Limited
Ground Floor, 70 Marshall Street
Johannesburg 2001

Postal deliveries to:
Computershare Investor Services 2004 (Pty) Limited
PO Box 61051
Marshalltown 2107

so as to be received by no later than 11:00 on Wednesday, 19 March 2008 (or 24 hours before any adjournment of the annual general meeting, which date, if necessary, will be announced in the press).

DECLARATION BY SECRETARY

I hereby certify that the company has lodged, with the Registrar of Companies, all such returns as are required of a public company, in terms of the Companies Act, 61 of 1973, as amended, and that all such returns are true, correct and up to date.

MMM Nkumanda
Group secretary

31 January 2008

SHAREHOLDERS' DIARY

Financial year-end	30 November
Publication of financial results for the year	last week January
Declaration of final dividend	last week January
Annual report posted to shareholders	middle February
Annual general meeting	third week March
Payment of final dividend	third week March
Publication of interim results	last week July
Declaration of interim dividend	last week July
Payment of interim dividend	third week August

HUDACO INDUSTRIES LIMITED

Group secretary
MMM Nkumanda

Registered office and business address
Incorporated in the Republic of South Africa
Company registration number 1985/004617/06
Hudaco Park
190 Barbara Road
Elandsfontein 1406
Private Bag 13
Elandsfontein 1406
Tel +27 11 345 8200
Fax +27 11 392 2740
E-mail info@hudaco.co.za
Website www.hudaco.co.za

Transfer secretaries
Computershare Investor Services 2004 (Pty) Limited
70 Marshall Street
Johannesburg 2001
PO Box 61051
Marshalltown 2107

GROUP DIRECTORY

Division	Business name	Nature of business	Address	Contact
Bearings and Power Transmission products			190 Barbara Road Elandsfontein	Tel 011 345 8000 Fax 011 974 7200 E-mail info@hudaco.co.za
	Bearings International	Distributor of bearings, seals and transmission products	190 Barbara Road Elandsfontein	Tel 011 345 8000 Fax 011 974 7200 E-mail bearings@bearings.co.za
Mechanical Power Transmission	Abes Technoseal	Distributor of oil and hydraulic seals, clutch kits and automotive ignition leads	5 Tunney Road Elandsfontein	Tel 011 974 8331 Fax 011 974 1786 E-mail dallman@abes.co.za
	Angus Hawken	Manufacturer of oil seals	13 Bodirelo Mogwase	Tel 01455 8 2756 Fax 01455 8 2425
	Belting Supply Services	Distributor of power transmission and conveyor belting products and industrial hose	15 Fortune Road City Deep	Tel 011 613 2155 Fax 011 613 1643 E-mail colin@belting.co.za
	Bestobell	Distributor of fluid measurement control products and pumps	9 Covora Street Jet Park	Tel 011 281 9300 Fax 011 397 3100 E-mail enquiries@bepbestobell.co.za
	Bosworth	Manufacturer of conveyor drive pulleys, forgings and rollings	Cnr Vereeniging/ Juyn Roads, Alrode	Tel 011 864 1643 Fax 011 908 5728 E-mail pulleys@bosworth.co.za
	Ernest Lowe	Manufacturer and distributor of hydraulic and pneumatic equipment	6 Skew Road Boksburg North	Tel 011 898 6600 Fax 011 918 3974 E-mail corporate@elco.co.za
Electrical Power Transmission	Ampco	Manufacturer of industrial plugs and sockets	Ampco House 1262 Anvil Road Robertville Extension 12 Roodepoort	Tel 011 474 9578 Fax 011 474 8748 E-mail info@ampco.co.za
	Bauer Geared Motors	Distributor of geared motors, frequency inverters and electric motors	72 Acacia corner Barbara Road Primrose	Tel 011 828 9715 Fax 011 822 4135 E-mail gbauer@global.co.za
	Powermite	Distributor of electric cabling, plugs, sockets, electric feeder systems and crane materials	92 Main Reef Road Technicon Roodepoort 1724	Tel 011 271 0000 Fax 011 760 3099 E-mail powermite.jhb@global.co.za
	Varispeed	Distributor of controllers, monitors and regulators of the speed of standard AC motors	Unit 2 15 Indianapolis Street Kyalami Business Park Midrand	Tel 011 466 0830 Fax 011 466 1007 E-mail drives@varispeed.co.za
Powered products	Deutz Dieselpower	Distributor of Deutz diesel engines and provider of aftermarket services	5 Tunney Road Elandsfontein	Tel 011 923 0600 Fax 011 923 0611 E-mail info@deutz.co.za
	Rutherford	Distributor of power tools, outboard motors, survey equipment and rivets	77 Smits Street Industries West	Tel 011 878 2600 Fax 011 873 1689 E-mail karen@rutherford.co.za
Security equipment	Elvey Security Technologies	Distributor of intruder detection, closed-circuit television, access control and fibre-optic equipment	65 Julbert Road Benrose	Tel 011 401 6700 Fax 011 401 6753 E-mail sales@elvey.co.za
	Elvey Security Technologies (UK)	Distributor of intruder detection, closed-circuit television and access control equipment	Unit 1, Wharton Street Nechells, Birmingham B7 5TR UK	Tel 0121 326 6616 Fax 0121 327 1881 E-mail sales@elveysecurity.co.uk
Group head office	Hudaco Industries Hudaco Trading		190 Barbara Road Elandsfontein	Tel 011 345 8200 Fax 011 392 2740 E-mail info@hudaco.co.za Website www.hudaco.co.za

Executives

Graham Gardiner Gilbert Da Silva Graham Dunford Brian Constancon	Divisional chief executive Chief executive – Mechanical Power Transmission Chief executive – Electrical Power Transmission Financial director		
Tony Patten Danie Louw Ian Robertson Alan Ross	Chief executive Regional sales director Bearings director Logistics director	Adrian Vorster Robert Southey Haroon Adams	Transmission director Financial manager Alternate director
David Allman Chris de Kock Jayne Kyte	Chief executive Financial director Logistics director	Danie Venter	Sales director
Hannes du Plessis	General manager		
Colin Briggs Mark Knight Piet Swanepoel	Chief executive Financial director Director	Tom Harrison Trevor Gardiner	Director Director
Andy Vermaak Jopie Oosthuizen	Chief executive Financial director		
Mark Tarboton Jo Paul	Chief executive Financial manager		
Douglas Salmon Jonina Fourie Manny Vieira	Chief executive Financial director Sales director		
Andrew Mowat	General manager		
Mark Oates Rika Wessels	General manager Financial manager		
Siegfried Roediger Mike Allnutt Gawie Beukman	Chief executive General manager Financial manager		
Rolf Lung Erika van de Velde	General manager Financial manager		
Leon Coetzer Burtie Roberts Rowan Michelson	Chief executive Financial director Marketing director	Maurice Pringle	Sales director
Bob Cameron-Smith Bhoopendra Dulabh Mick Spooner	Chief executive Director Director: Marine	Les Trollip	Financial director
Jack Edery Bev Scott Dave Waywell	Chief executive Financial director Operations director	Zane Greeff	Technical director
Eugene O' Hara	Managing director		
Stephen Connelly Peter Poole Mzolisi Nkumanda Cassie Lamprecht	Group chief executive Group financial director Group secretary Group accountant	Andrew Wallis Gary Walters Peter Wilgenbus	Group treasurer Projects Group risk and internal audit

www.hudaco.co.za