Hudaco

HUDACO INDUSTRIES LIMITED

ANNUAL REPORT 2008

Hudaco

2008

Contents

Profile

Hudaco Industries is a South African group of companies specialising in the importation of 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:

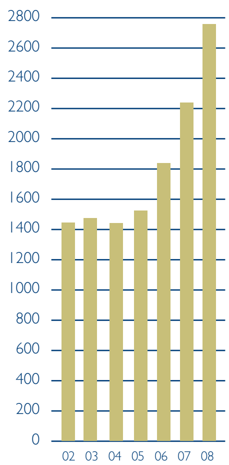
- Bearings and Power Transmission products
- Powered products
- Security equipment

Hudaco sources 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. A network of branches and independent distributors throughout southern Africa serves the industrial replacement part markets and supplies equipment to the security industry.

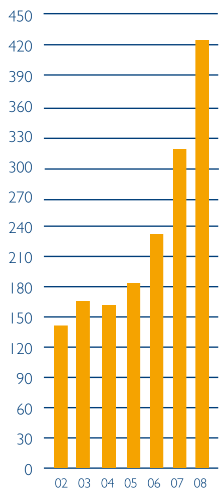
"Value-added distribution our core competency"

RESULTS IN BRIEF

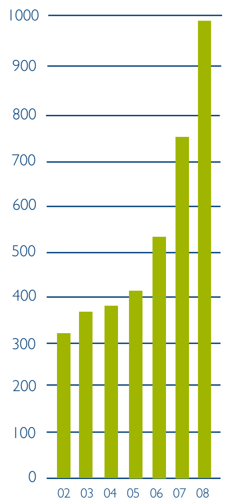
30 November 2008	2008	2007	% change
Turnover (Rm)	**2 766**	2 227	24
Operating profit (Rm)	**427**	318	34
Normalised headline earnings (Rm)	**307**	226	35
Attributable earnings (Rm)	**307**	183	68
Normalised headline earnings per share (cents)	**995**	750	33
Dividends per share (cents)	**400**	260	54
Special dividend per share (cents)		330	



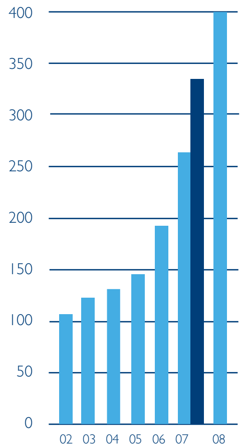
Turnover (Rm)



Operating profit (Rm)



Normalised headline earnings per share (cents)



Distributions per share (cents)
■ Special dividend

Sales up 24%

Operating Profit up 34% to R427 million

Normalised headline earnings per share up 33% to 995 cents

Ordinary dividends increase by 54% to 400 cents per share

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, special solid and hollow round steel, specialised pipes and fittings, electrical cabling, plugs and related products to the manufacturing, mining, agricultural and automotive aftermarkets.

Principal businesses

ABES Technoseal
Ambro Sales
Astore Africa
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
Rutherford

Security Equipment

Principal activity

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

Principal business

Elvey Security Technologies

Note:
All the aforementioned prinicipal businesses are15% owned directly by BEE shareholders, except DDP which is 30% owned by Deutz AG

Bearings and Power Transmission Products

Rm	2008	2007
Turnover	**1 727**	1 273
Operating profit	**251**	173
Average net operating assets	**696**	446
Number of employees	**1 791**	1 586

Powered Products

Rm	2008	2007
Turnover	**673**	589
Operating profit	**145**	124
Average net operating assets	**138**	100
Number of employees	**369**	344

Security Equipment

Rm	2008	2007
Turnover	**367**	365
Operating profit	**49**	44
Average net operating assets	**80**	80
Number of employees	**196**	199

Group	Head office and intergroup		Group	
Rm	2008	2007	2008	2007
Turnover	**(1)**		**2 766**	2 227
Operating profit	**(18)**	(23)	**427**	318
Average net operating assets	**9**	(14)	**923**	612
Number of employees	**22**	20	**2 378**	2 149

MEMBERS OF THE BOARD AND EXECUTIVE COMMITTEE

Non-executive directors

Royden Vice (61)
Independent non-executive chairman **BCom CA(SA)**
Royden worked for the BOC group in RSA, USA and UK from 1975 to 2001 and ended his career as CEO of Industrial and Special Products whilst serving on the international 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.

John Gibbon (68)
Independent non-executive director **CA(SA)**
John qualified as a chartered accountant with Pricewaterhouse-Coopers in 1963 and retired as a senior partner in 2001. He is a non-executive director and chairman of the audit committee of two listed companies. He joined the board in 2001.

Nosipho Molope (44)
Independent non-executive director **BSc (Med Sc) BCompt CA(SA)**
Nosipho is a non-executive director of MTN, Illovo, Nampak and Petro SA. She is a chartered accountant and during her working career she held senior positions at Viamax, Zungu Investments Company and the Financial Services Board. She joined the board in January 2009.

Peter Campbell (71)
Independent non-executive director **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 in 2007. He is a non-executive director of Delta Electrical Industries Limited. He joined the board of Hudaco in 1997.

Nene Molefi (43)
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.

Stuart Morris (62)
Independent non-executive director **BCom CA(SA)**
Stuart is a non-executive director of Group Five, Zurich Insurance (RSA) and City Lodge. He worked for KPMG RSA for over 30 years and was a partner for 24 years. In 1995 he became chairman and senior partner and a member of the KPMG International executive and board. He was Nedcor's group financial director from July 1999 until he retired in February 2004. He joined the board in January 2009.

Executive directors

Stephen Connelly (57)
Group chief executive **ACMA**
26 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.

Peter Poole (61)
Group financial director
BCom CA(SA)
21 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.

Graham Gardiner (62)
CEO Bearings and Power Transmission Products division
38 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.

Graham Dunford (44) (Alternate)
CEO Electrical Power Transmission
20 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 as an alternate director in January 2009. He is responsible for Ampco, Bauer, Varispeed and Powermite.

Non-executive directors


Royden Vice


Peter Campbell


John Gibbon

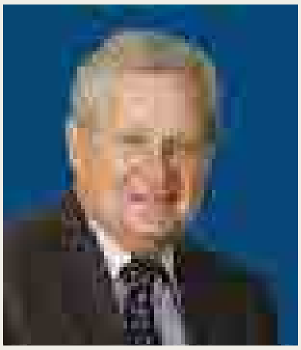

Nene Molefi


Nosipho Molope

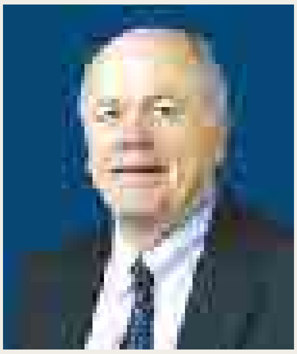

Stuart Morris

Executive directors

Stephen Connelly



Graham Gardiner



Peter Poole

Graham Dunford

Executive committee

Stephen Connelly* (57)
Group chief executive ACMA 26 years' service
Refer to page 4 for CV.

Bob Cameron-Smith (60)
CEO Rutherford 35 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 (which owned Vickers Instruments and Rutherford) in 1992 he was appointed chief executive of Rutherford.

Ossie Carstens (43)
CEO Deutz Dieselpower BSc (Mech Eng) MBA
Ossie qualified as a mechanical engineer in 1991. He joined Deutz Dieselpower in 2008 as chief executive. He started his career in Gold Fields and later joined Impala Platinum where he advanced to senior operations engineer. In 2003 he joined Sandvik as operations manager and in 2004 he was appointed general manager.

Leon Coetzer (54)
Out-going CEO Deutz Dieselpower 19 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 (61)
CEO Mechanical Power Transmission ACIS 38 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 (44)
CEO Electrical Power Transmission 20 years' service
Refer to page 4 for CV

Jack Edery (57)
CEO Elvey Security Technologies BCompt(Hons) CA(SA)
12 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* (62)
CEO Bearings and Power Transmission Products division
38 years' service
Refer to page 4 for CV.

Mzolisi Nkumanda (44)
Group secretary BCom MBL 1 year's service
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. He is also responsible for group transformation.

Tony Patten (54)
CEO Bearings International 26 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* (61)
Group financial director BCom CA(SA) 21 years' service
Refer to page 4 for CV.

*Executive director Service is with Hudaco and businesses acquired.

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 quick 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.

HISTORY OF HUDACO INDUSTRIES

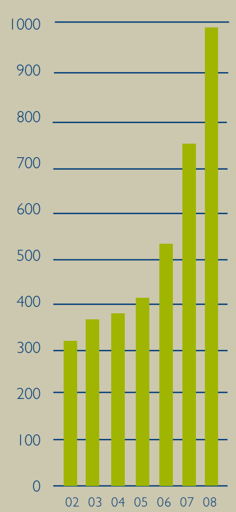
1891	Hudaco Industries derives its name from and traces its existence to Hubert Davies and Company, whose history and development have been an integral part of the economic development of southern Africa for the past 117 years. The founder, J Hubert Davies, an electrical engineer, came to South Africa 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.
1897 - 1970	In 1897 Hubert Davies 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.
1974 - 1977	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.
1981 - 1985	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.
2007	As part of its empowerment initiative, the group sold 15% of all operating businesses, except DDP, to BEE shareholders.
2008	Today the group employs more than 2 300 people, its market capitalisation is R1,9 billion and its shareholders include many of the blue-chip players in the investment industry.

SEVEN-YEAR REVIEW

	Prepared under IFRS			Prepared under GAAP			
R million	**2008**	2007	2006	2005	2004	2003	2002
Group income statement							
Turnover	**2 766**	2 227	1 838	1 530	1 431	1 461	1 435
Operating profit	**427**	318	234	181	162	163	142
Net finance cost less dividends received	**40**	(5)	(7)	(4)	(6)	1	8
Profit before taxation	**387**	323	241	185	168	162	134
Taxation	**57**	83	76	59	54	52	44
Profit after taxation	**330**	240	165	126	114	110	90
Share of associate company profits							2
Minority interest	**23**	13	6	5	5	5	3
Normalised earnings	**307**	227	159	121	109	105	89
Exceptional/capital items – net		44	9	(1)	20	5	5
Attributable earnings	**307**	183	150	122	89	100	84
Shares in issue 000 (weighted average)	**30 836**	30 178	29 870	29 592	29 289	28 776	28 264
Earnings per share (cents)							
– normalised headline	**995**	750	533	409	371	365	316
– basic	**995**	606	502	413	303	347	297
Distributions per share (cents)	**400**	260	190	144	128	122	105
Special dividend per share (cents)		330					
Group balance sheet							
Property, plant and equipment	**92**	74	67	62	43	44	45
Goodwill	**131**	77	57	64	43	56	47
Intangible assets	**25**						
Deferred taxation	**(5)**	1	1	2	16	15	17
Inventories	**780**	544	452	375	285	320	315
Accounts receivable	**507**	399	355	279	245	239	251
Accounts payable	**(488)**	(435)	(382)	(296)	(268)	(248)	(250)
Taxation	**(33)**	(30)	(24)	(13)	(25)	(37)	(46)
Net operating assets	**1 009**	630	526	473	339	389	379
Investment	**2 181**	2 181					
Net cash	**69**	317	238	187	207	114	56
Employment of capital	**3 259**	3 128	764	660	546	503	435
Shareholders' equity	**1 015**	807	728	612	508	458	396
Minority interest	**40**	29	22	24	26	24	20
Total shareholders' funds	**1 055**	836	750	636	534	482	416
Shareholders for special dividend		101					
Subordinated debenture	**2 181**	2 181					
Amounts due to vendors on acquisitions	**23**	10	14	24	12	21	19
Total capital employed	**3 259**	3 128	764	660	546	503	435
Group cash flow							
Cash generated from trading	**450**	334	248	195	175	177	160
Increase in working capital	**(235)**	(71)	(62)	(62)	36	(2)	(56)
Cash generated from operating activities	**215**	263	186	133	211	175	104
Net finance cost	**(37)**	2	8	5	6	(1)	(7)
Taxation paid	**(56)**	(81)	(65)	(63)	(63)	(56)	(41)
Cash flow from operations	**122**	184	129	75	154	118	56
Cash distributions to shareholders	**(214)**	(67)	(54)	(42)	(39)	(33)	(45)
Applied to operating activities	**(92)**	117	75	33	115	85	11
Net investment in							
– preference shares		(2 181)					
– new businesses etc	**(140)**	(35)	(11)	(47)	(11)	(17)	(3)
– property, plant and equipment	**(20)**	(17)	(16)	(9)	(14)	(12)	(17)
Net cash invested	**(160)**	(2 233)	(27)	(56)	(25)	(29)	(20)
Cash applied after investments	**(252)**	(2 116)	48	(23)	90	56	(9)
Increase in shareholder funding	**4**	14	3	3	3	2	1
Subordinated debenture issued		2 181					
(Decrease) in net cash	**(248)**	79	51	(20)	93	58	(8)

CHAIRMAN'S REPORT

"The groups' reliance on GDP spending shields it to a degree from the turmoil affecting most world markets."



Normalised headline earnings per share (cents)

Royden Vice

2008 Results

It is my pleasure to bring you my first report as chairman of the company, in particular as the performance this year was again outstanding.

Sales of R2,8 billion are 24% up on last year whilst operating profit is up 34% to R427 million. Normalised headline earnings per share increased 33% to 995 cents. Following a policy decision in May this year to increase the dividend payout from 33% to 40% of normalised earnings, normal dividends declared this year amount to 400 cents per share (2007: 260 cents) an increase of 54%.

Volume sales of bearings, power transmission products and diesel engines were up on last year's levels, benefiting from solid GDP growth plus increased investment by mines to expand output and, to a lesser extent, increased spending by government and parastatals. Sales of power tools however, were down whilst sales of security equipment were flat, both responding to interest rate increases acting to dampen consumer spending on housing and building related activities.

The balance sheet is healthy. The group has R69 million net cash on hand at year end (2007: R317 million). Although inventories are up 43% to R780 million and are higher than we would have liked, the increase is understandable given the lengthening and, perhaps more importantly, the less reliable lead times from suppliers over the past few years. Now, in response to declining world demand, lead times are dropping and a corresponding reduction in inventories can be expected. Importantly, there is no significant area of concern within the overstocked position. The return on net operating assets (RONA) in 2008 is 46%, well above our 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.

Business environment

2008 sales growth of 24% includes 10% from acquisitions. The sales increase from ongoing operations of 17% is a function of two important variables: the change in volume sales and the price we charge for the goods we sell.

South Africa has experienced a period of strong economic growth over the past five years. Although at first this growth was driven by robust consumer spending, it has since been overtaken by growth in the creation of additional mining and manufacturing capacity. Public and private sector investment spending is now being directed at mining projects, infrastructural upgrades and expansion and electricity generation – the primary and secondary sectors of the economy. The government should be congratulated for initiating a number of major long-term capacity expansion programs in the last two years which will provide business opportunities for many more years, particularly during this period of world contraction.

The increased activity that results from this investment spending benefits Hudaco's Bearings and Power Transmission division and its diesel engine business which account for nearly 75% of our total sales. The balance of sales is in power tools, automotive parts and intruder detection (security) products and is primarily exposed to consumer spending.

Being predominately an importer, selling prices in the market tend to follow the Rand exchange rate whilst the group's overhead cost base is governed by local inflation. Over time, the Rand would be expected to weaken by the inflation differential between South Africa and its trading partners allowing us to pass on imported inflation to our customers at roughly the same rate as the local inflation rate. However, it is not always the case that Rand weakness in a financial year exactly equals the inflation differential, so managing the ups and downs of the Rand in individual financial years presents quite a challenge.

Our internal procedure in managing foreign currency exposure is based on the principle of avoiding speculation. All foreign currency liabilities are covered forward (hedged) at the time the asset passes into Hudaco ownership. A percentage of orders on suppliers are also hedged.

Business model and strategic positioning

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

Distribution rights have been secured from leading international manufacturers mainly on an exclusive basis. We look particularly for suppliers with a global brand presence and a commitment to maintaining market leadership through technical innovation. In particular we seek products which require a "value add" beyond just product availability, such as installation or technical usage advice. Experience has taught us that markets or customers which just demand the lowest price are best left to other distributors with a different business model. Although all our markets are highly competitive with numerous players, few of the products we distribute are manufactured locally nor are they likely to be in the foreseeable future. Economies of scale and the lack of a well developed manufacturing industry capable of competing on a world stage without some form of local protection inhibit this.

Hudaco's businesses do not require significant investment in property or plant and equipment to operate. The group's net operating assets consist mainly of working capital with inventories being the largest component, as product availability is a key competitive advantage. 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.

The group is committed to acquisitive growth and has the resources to achieve it. Major world manufacturers are invariably already represented locally and changes in local distribution occur infrequently. This normally only occurs when the local owners of the distribution rights wish to disinvest. We need to be alert to such changes as opportunities to acquire rights to distribute products which fit our business model present themselves only rarely. As a result, our acquisition strategy, by circumstance, tends to be opportunistic in nature.

IFRS 3, a relatively new accounting rule which requires intangibles in an acquisition to be valued and written off over relatively short periods makes it more difficult to make acquisitions which improve earnings other than in the longer term. With a board and management team focused on earnings growth these rules make acquisitions harder to justify and a longer term view is often required. In the recent past we have also seen vigorous competition for quality assets from private equity players who, using gearing to a far greater degree than we would contemplate, have been prepared to pay higher prices than we would. Recently this has changed, and we are more favourably positioned to use the current low pricing and our strong balance sheet to make strategic acquisitions.

The group looked at a number of opportunities in 2008 and, although in many cases valuations did not justify a purchase, there were two successes. Both operate in niche markets. Astore Africa, an importer and distributer of specialised valves and piping to South Africa's mining and manufacturing sectors, was purchased effective 1 February 2008, whilst Ambro Sales, a specialised distributor of solid and hollow round steel, was acquired on 1 March 2008.

Investing in our own businesses represents the least risky growth route and a high priority is placed on ensuring that every organic growth opportunity is exploited.

CHAIRMAN'S REPORT

Black economic empowerment

In terms of the DTI codes, BEE ownership in Hudaco Industries is 10% which flows through to its subsidiary companies. During 2007 the group completed a transaction to introduce direct BEE ownership of 15% to the group's primary operating subsidiary, Hudaco Trading, bringing its BEE ownership, direct and indirect, up to 25%. DDP, our diesel engine business which has our supplier Deutz AG as a 30% shareholder did not participate in this transaction.

The direct BEE ownership in Hudaco Trading is held by Hudaco Staff Education and Community Trusts with 5% each, and a consortium of individual entrepreneurs, the Ulwazi Consortium, with 5%.

Dividends will begin to flow to the BEE shareholders in early 2009 and the staff education trust has already committed to using its share of those dividends to fund bursaries for the 2009 academic year.

The BEE transaction secured the maximum number of BEE ownership points (23) on the DTI Broad-Based Black Economic Empowerment Codes of Good Practice scorecard for Hudaco Trading. We have set our businesses a short-term objective to achieve level 4 (65 points) on the scorecard. This requires a focus on broad based empowerment including procurement and development. Interpretation of the codes and information gathering becomes easier with familiarity and progress towards this objective is expected to accelerate.

Director appointments, farewell and appreciation

It is a great pleasure to welcome two new non-executive directors to the board.

Stuart Morris and Nosipho Molope were appointed as independent non-executive directors on 12 January 2009. At a future date, both will join the audit committee whilst Stuart will also join the remuneration committee. Both new directors will require their appointments to be ratified at the forthcoming AGM in March 2009.

We welcome and congratulate Graham Dunford, who heads up the group's Electrical Power Transmission division, on his appointment as an alternative executive director to Graham Gardiner.

Peter Campbell retires at the next AGM after serving twelve years as a non-executive director, ten of them as Chairman. On behalf of the board and our shareholders I thank him for his well respected leadership, his years of service to the group and for the valuable contribution he made in guiding the board's business. I wish him well in his retirement.

I thank my colleagues on the board for their support and advice during my first year as chairman and also thank the executive and senior management of the group, led by Stephen Connelly, for their achievements this year. I also take this opportunity to thank all employees for their efforts and our suppliers and customers for their ongoing support.

Prospects

The South African economy will not escape the backwash from the turmoil affecting most world markets and, with the sharp decline in commodity prices, there have already been announcements cancelling or postponing investments in mining projects. The group's reliance on GDP spending shields it to a degree from such events but trading conditions are expected to be more difficult for Hudaco in 2009. Appropriate measures to deal with a mild business correction were put in place in October 2008, including deferring decisions on expansion and acquisitions until we can evaluate the impact of the financial crisis on our markets. Orders on suppliers have not yet been adjusted downwards since demand through to year-end was reasonably strong. If demand does decline in 2009 it may be that the group will be overstocked for a period of time, something that can easily be coped with given the strong balance sheet.

Medium term, that is to say beyond the financial crisis, prospects are sound. Spending on South Africa's infrastructure is underway and demand fundamentals support some investment in mining projects, particularly coal. We believe that overall economic growth driven by investment spending will resume once the current crisis has passed and will continue for some years beyond that.

It is difficult, if not impossible, to predict the group's earnings performance in 2009 so we make no attempt to do so. Suffice to say the business is strong and will easily survive the current crisis. Using past recessions as a guide, Hudaco's cash generation would be expected to accelerate in a downturn as it shrinks its working capital base. Although margins will come under pressure we believe the group's exposure to predominantly GDP spending and the weaker Rand will allow it to continue to achieve returns in excess of its cost of capital.

Royden Vice

RT Vice
Chairman

29 January 2009

CHIEF EXECUTIVE'S REVIEW OF OPERATIONS

Stephen Connelly

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

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 Hudaco's biggest investment item. A key competitive advantage is the ability to invariably 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, preventive maintenance inspections and management of customers' procurement cycle. 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 the 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 instills self-discipline

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."

and encourages leadership, initiative 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.

Operational and divisional reviews

2008 Results

A detailed explanation of Hudaco's financial objectives and a review of performance against those objectives is contained in the financial report.

Sales of R2,8 billion for the year are up 24% on 2007 of which 10% is from acquisitions. Most businesses in the Bearings and Transmission division achieved an increase in volume sales. In Powered Products, volume sales of diesel engines and spares were well up whilst power tools and outboard motors were down. There was no growth in volume sales of security products. The sudden Rand weakness in the last quarter of the financial year resulted in general price increases of imported products. This appeared to accelerate buying by some customers before the increases came into effect. More frequent supplier increases continued in 2008 due to increases in the prices of raw materials and particularly strong current worldwide demand. However, towards the end of the year, it became apparent that this trend is slowing and may even reverse in 2009.

In the Bearings and Power Transmission division, sales increased 36% to R1,7 billion of which 17% came from newly acquired businesses, Astore and Ambro. Operating profit climbed 45% to R251 million. Trading conditions in the division were robust with mines and manufacturers enjoying near boom conditions and volume sales were well up. There was also sustained quoting on capital project work for mines, civil engineering projects and manufacturers during the year although there were signs towards year-end that some projects may be cancelled or postponed.

In the Powered Products division sales increased 14% and operating profit increased 17%. DDP had another excellent year with strong demand for diesel engines mainly for platinum mining applications. In Rutherford, unit sales of power tools declined as building activity slowed and outboard motor sales declined again in response to the interest rate increases of the past few years and the National Credit Act which makes credit harder to obtain.

In the Security Equipment division sales in the South African operations were up 17% on slightly improved volumes leading to a solid 20% increase in operating profit. The UK security business was closed in the second half of 2008.

The group gross profit margin at 39,1% was up 1,2% on last year and is due to the slightly different mix of product sales this year compared with 2007. Expenses as a percentage of sales remained at 23,7%. Above-inflationary pressure is still 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. However, this pressure may ameliorate as the economy slows. Group operating profit rose by 34% or R109 million to R427 million with an operating margin to sales of 15,4% (2007: 14,3%).

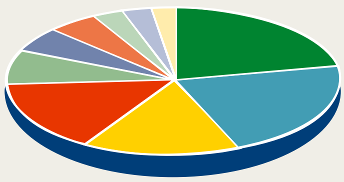
Net interest paid was R240 million (2007: R66 million) and preference dividend income was R200 million (2007: R67 million). These significant changes from last year are mainly due to the BEE transaction being in effect for the entire 2008 financial year compared to only four months of the 2007 financial year. Details of the transaction were explained, in detail, in last year's annual report. The tax rate decreased from 31% to 14% as the dividends received are not taxed. Capital items of R2 million were charged, mainly attributable to the costs of closing Elvey UK. Normalised headline earnings per share of 995 cents are up 33% on last year. Both headline and basic earnings per share were up over 60% as 2007 included a non-recurring charge of 130 cents arising on the introduction of BEE shareholders. In May 2008, following a review of the group's cash flow characteristics, the dividend policy was changed, increasing the payout from 33% to 40% of normalised earnings per share. As a result total dividends in 2008 were 400 cents, up 54% on last year's 260 cents. A special dividend of 330 cents per share was paid in December 2007 which was not repeated this year.

The balance sheet is healthy. Working capital (inventories, accounts receivable and accounts payable) at R799 million is R291 million or 57% above 2007 levels. The increase in inventories of 43% is higher than the sales increase and is primarily due to lengthening lead-times from suppliers and less reliable deliveries over the past few years resulting in a decision to increase safety stock levels. As lead-times now drop in response to reducing global demand a corresponding reduction in inventories can be expected. The group has R69 million net cash on hand at year-end (2007: R317 million). Net asset value per share is R32,82.

The return on net operating assets in 2008 was 46%, much the same as last year's 52%, 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%.

The group concluded two acquisitions this year at a cost of R152 million. Astore Africa an importer and distributor of specialised valves and piping to South Africa's mining and manufacturing sectors was purchased effective 1 February 2008. Ambro Sales, a specialised distributor of solid and hollow round steel, was acquired on 1 March 2008. Astore's initial results were disappointing but it performed well in the second half of the year. Ambro produced exceptional results this year.

SALES BY MARKET SECTOR %



	2008	2007
Manufacturing	**22**	22
Mining	**21**	21
Wholesale and retail	**14**	14
Security	**12**	16
Automotive	**8**	7
Exports	**7**	7
Construction	**5**	5
Agriculture	**4**	2
Other	**4**	3
Public sector	**3**	3

CHIEF EXECUTIVE'S REVIEW OF OPERATIONS

Bearings and Power Transmission Products division

Principal activity

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

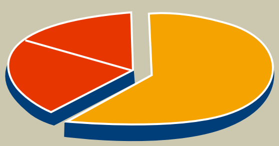
Graham Gardiner
CEO Bearings and Power Transmission

Gilbert Da Silva
CEO Mechanical Power Transmission

Graham Dunford
CEO Electrical Power Transmission

Tony Patten
CEO Bearings International

SALES



Contribution to group sales 63%

OPERATING PROFIT

Contribution to operating profit 56%

	2008	2007
Sales (Rm)	**1 727**	1 273
- Ongoing	**1 506**	1 273
- Acquired in 2008	**221**	
Operating profit (Rm)	**251**	173
- Ongoing	**220**	173
- Acquired in 2008	**31**	
Average NOA (Rm)	**696**	446
Number of employees	**1 791**	1 586

Principal markets served %

Manufacturing	32
Mining	21
Wholesale and retail	13
Automotive	12
Total	**78**

Principal businesses

Bearings International

Mechanical Power Transmission

Abes Technoseal
Ambro Sales
Astore Africa
Belting Supply Services
BEP Bestobell
Bosworth
Ernest Lowe

Electrical Power Transmission

Ampco
Bauer Geared Motors
Powermite
Varispeed

The Bearings and Power Transmission Products 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, thermoplastic valves and piping, round steel, geared motors, electric motors, variable speed drives, specialised plugs and sockets, non-standard electrical cable and soft starters are offered to the mining, manufacturing, automotive, and agricultural markets. Standard products are distributed by our flagship industrial distribution business, Bearings International (BI), 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 record results this year. Good growth in volume sales and two acquisitions helped sales grow 36% to R1,7 billion and operating profit 45% to R251 million. General day to day trading activity to mines and manufacturers was good, whilst requests for quotes for project business were sustained at reasonably high levels throughout most of the year. However, there was a noticeable fall off towards year-end as commodity prices plunged and mines and manufacturers reassessed project timelines. 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. The sharply weaker Rand towards the end of 2008 resulted in double digit price increases. The division' s RONA was 36%.

Bearings International (BI) – Hudaco's largest individual business once again grew profits strongly and produced pleasing financial results in 2008. Both sales and profits increased sharply to record levels. However, the worldwide bearing shortage worsened during the year and lead-times became increasingly unreliable, which forced BI to hold more stock and put pressure on returns. Supply has been easing as the world demand declines which should allow us to reduce stock in 2009.

BI has achieved BBBEE Scorecard Level 4 Status and, having been classified as a "Value Adding Enterprise", has 125% BEE recognition level. BI has tailored its skills development spend to its transformation agenda and continues to invest heavily in critical employee skills training. Specialised training is also offered to customers to address their skills shortages regarding the correct handling, fitment, maintenance and replacement of bearings and mechanical drive components. Its SHEQ has advanced to the latest ISO 9001-2008 standard and the Occupational Health and the Safety Management System has been upgraded from OHSAS 18001-2007 version. BI will continue to focus on improving customer service and adding international brands to its product range.

Electrical Power Transmission – Bauer, Varispeed and 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.

Powermite again performed well growing sales and profits despite the uncertainty of unreliable electrical power supply to industry in the first quarter of the year. This resulted in a number of projects being cancelled and/or shelved. The sharply lower copper price in the second half of the year has resulted in significantly decreased cable prices but the weaker Rand/Euro has offset this to a great degree and Rand prices have only had to be marginally decreased.

Bauer has had three years of exceptional results due mainly to projects in the mining industry. The introduction of Rossi large gearboxes at the beginning of the year complements the range even further.

A selection of FAG bearings distributed by BI.

Conveyer belt drive pulleys manufactured by Bosworth.

CHIEF EXECUTIVE'S REVIEW OF OPERATIONS

Varispeed performed well in 2008. The sales team identified the need in the industry for a budget priced inverter and thus successfully launched the "V-Drive".

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

Bosworth, a manufacturer of conveyor belt drive pulleys for the mining industry produced a third year of record sales and profits in 2008. Although the business has a healthy order book we expect customers to ask that delivery dates be pushed out which will make it difficult to match last year's operating profit performance.

Abes, our automotive aftermarket and industrial sealing business, performed reasonably this year, hampered by the relocation to new premises which was completed towards the end of the year.

Belting Supply Services continued to benefit from their relocation to larger and better located premises in 2007. They have increased market share and produced record sales and profits in 2008.

Ernest Lowe, a pneumatic and hydraulic product specialist, had a very good year, opening one new branch and successfully commercialising a water cylinder for the mines which will replace pneumatic cylinders and utilise the free energy available in the water column.

Ambro Sales, a specialised distributor of solid and hollow round steel, acquired in the first half of 2008, produced excellent results. Operating profit for the first year of trading is more than 70% up on expectations at the time of acquisition. In 2008 the steel market in South Africa (and the world) was abnormally volatile with steel shortages and quota limits being enforced by local steel manufacturers. This led to rapid price increases from steel producers which artificially boosted demand as customers and merchants attempted to stock up before prices escalated further. In October, supplier prices were reduced because of lower raw material costs, and then again in November and December as manufacturers reacted to reducing demand.

Astore Africa, an importer and distributor of specialised thermoplastic valves and piping to South Africa's mining and manufacturing sectors, had a tough start to the year with gross margins under pressure. Fortunately, in the second half of the year, margins were back to normal and the business performed well.

Prospects - The division's reliance on GDP spending shields it to a degree from the possible cancellation or postponement of investments in South African mines after the collapse in commodity prices. Infrastructural projects, including the building of power stations, will probably still go ahead but manufacturing activity is likely to come under pressure as the year unfolds while consumer spending has already been muted for some years. Under these circumstances the achievement of a modest increase in profits in 2009 would be pleasing.

FIP thermoplastic valve distributed by Astore.

Varispeed's Yaskawa V1000 variable speed drives.

Principal brands

German precision bearings.
Distributor since March 2005

Ball and roller bearings from Japan.
Sole distributor since 1962

Variable speed drives from Japan.
Sole distributor since 1992

Seals from Germany.
Sole distributor since 1955

Geared motors from Germany.
Sole distributor since 1989

European pneumatic equipment.
Distributor since 1959

Own range of electrical plugs
and sockets since 1974

Clutch kits from Korea.
Sole distributor since 1996

Thermoplastic valves from Austria
Sole distributer since 1995

Powered Products division

Bob Cameron-Smith
CEO Rutherford

Leon Coetzer
CEO Deutz Dieselpower
Retired 31 December 2008

Ossie Carstens
CEO Deutz Dieselpower
Appointed 1 November 2008

	2008	2007
Sales (Rm)	**673**	589
Operating profit (Rm)	**145**	124
Average NOA (Rm)	**138**	100
Number of employees	**369**	344

Principal businesses

Deutz Dieselpower
Rutherford

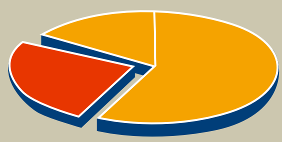
Principal markets served %

Mining	32
General trade and leisure	24
Construction	14
Manufacturing	9
Total	**79**

Principal activity

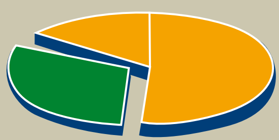
The distribution of power tools and outboard motors and the marketing and servicing of Deutz diesel engines and spares to the construction, mining, manufacturing, marine, agricultural and retail markets.

SALES



Contribution to group sales 24%

OPERATING PROFIT



Contribution to operating profit 33%

DEUTZ DIESELPOWER

Demand for diesel engines and spares were strong throughout the year. Demand for industrial use power tools decreased in 2008 and understandably the outboard motor market declined significantly for the second year running. However the overall results produced by this division in 2008 were pleasing. Sales increased 14% and operating profit 17%. The operating margin was 22% and the RONA 105%. Demand for diesel engines and spares is expected to be steady in 2009 but will be dependant on mining activity, particularly platinum and gold, whilst sales of power tools is expected to continue to slow until there is a general turnaround in building activity. Sales of outboard motors will continue to be weak until there is a general pick up in consumer spending.

Deutz Dieselpower (DDP) – (Hudaco's interest is 70%) Distributes Deutz diesel engines and spares primarily to the off-road and industrial markets. Frequently, 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 (often a mining company) then relies on DDP to provide the aftermarket service of 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, spares and service to agricultural, military and construction markets and to manufacturers of power generators. DDP's sole supplier is Deutz AG of Germany which owns 30% of the business.

The water cooled Deutz 2012 engine.

Rutherford's Maktec metal cut-off saw.

DDP has distributed Deutz diesel engines and provided aftermarket service 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 140 years. Deutz has recently introduced various new engine models using DEVERT (Deutz Variable Emission Reduction Technology) to comply with EU stage IIIB (2004/26EC) exhaust emission legislation. DEVERT includes internal and external exhaust gas recirculation, mechanical fuel injection systems with EMR, the Deutz common rail system, electronically controlled injection pumps, valve lift management and electronic engine management systems.

The success of the air-cooled range of engines, specifically in underground mining applications, has helped DDP to maintain a high market share. The new 914 engine family of air-cooled engines meets the EU stage IIIA emission regulations and is planned to meet EU stage IIIB regulations to be introduced from 2011. This has been achieved through the use of the aforementioned engine management systems. DDP has also developed and certified four and six cylinder liquid-cooled engines for flameproof applications in coal mining.

DDP is creating an Engine Repair Centre of Excellence at its Head Office in Elandsfontein to improve service support to customers and service partners. The first initiative in this strategy was to establish a training academy in 2008, now followed by the establishment of a repair workshop that complies with the international standards set by Deutz AG. The workshop will be fully operational by mid-2009.

DDP achieved record sales and profits in 2008. However, prospects for the 2009 financial year are difficult to assess. In response to sharply lower commodity prices, mining expansion seems set to be curtailed quite severely and some marginal mines may be closed. Coal mining activity will probably continue as power station building is rolled out, but our product offering is less suited to this activity than gold and platinum mining. The power generation market has also not fulfilled demand expectations after Eskom's load shedding was discontinued in mid 2008. Under these conditions we would be pleased with modest growth in sales and earnings in 2009.

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, Romania, China, USA and Brazil. Mercury/Mariner with manufacturing facilities in the USA, Europe and China is the largest manufacturer of four stroke outboard and inboard marine motors.

Although power tool volume sales decreased this year, there were highlights. The relatively new Makita cordless range with lithium iron battery technology, an acknowledged world market leader, performed well, increasing volume sales against the overall trend. The Maktec range continued to be broadened in 2008 allowing the brand to be positioned in recognized distribution outlets as a complete brand offering in its market segment.

As expected, outboard motor volume sales declined once again in 2008. The high interest rates of the past three years and the 2007 National Credit Act which governs the granting of credit has caused a decline in demand for boats and the motors which power them in South Africa. The trend away from noisy and dirty "old technology" two stroke motors towards clean burning direct injection two-stroke and four-stroke outboard marine motors continued. This should be beneficial because of our product strength in both these sectors of the outboard motor market. In addition we also have the world's first supercharged range of four stroke outboards (from 135HP to 300HP) with world beating power to weight performance. We will benefit from this product positioning when the market recovers.

Sales of Topcon underground survey equipment have been enhanced this year by the introduction of machine control and GIS graphic information data collectors. Sales of nuclear gauges used in civil engineering applications were strong in 2008 benefiting from infrastructure spending, particularly road building. Volume sales of commodity rivets were flat.

Rutherford's sales declined slightly in 2008. However, pressure on margins led to a 14% decline in operating profits. The return on net operating assets was still well above the business' cost of capital. Consumer spending on leisure continued to slow in 2008 as did housing and residential starts and refurbishment spend. Power tool sales are likely to remain fairly flat for the first months of 2009 and then pick-up as many large projects, such as the 2010 world cup stadiums and Gautrain enter finishing stages. However, pressure on pricing and operating margins is likely to remain across all product groupings and we would be happy with modest growth in sales and profits in 2009.

Principal brands

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

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

Outboard motors from USA.
Sole distributor since 1986

Petrol inboards and Sterndrives from USA.
Sole distributor since 1986

Outboard motors from USA.
Sole distributor since 1978

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

New range of air-cooled Deutz diesel gensets.

Sliding compound-mitre saw distributed by Rutherford.

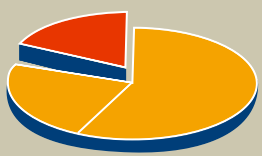
Security Equipment division

Principal activity

Elvey's principal business is the distribution of intruder detection, access control and related CCTV equipment.

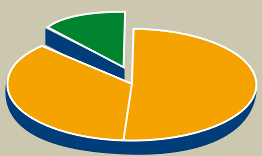
Jack Edery
CEO Elvey Security Technologies

SALES



Contribution to group sales 13%

OPERATING PROFIT



Contribution to operating profit 11%

	2008	2007
Sales (Rm)	**367**	365
- Ongoing	**343**	294
- UK closed in 2008	**24**	71
Operating profit (Rm)	**49**	44
- Ongoing	**55**	46
- UK closed in 2008	**(6)**	(2)
Average NOA (Rm)	**80**	80
Number of employees	**196**	199

Principal business

Elvey Security Technologies

Elvey Security Technologies

Elvey Security Technologies ("Elvey") – Elvey's principal business is the distribution of intruder detection, access control and to a lesser extent related CCTV equipment. Products carried include alarm control panels, keypads, indoor and outdoor motion sensors, access control monitors and indicators, cameras, recording equipment, 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, Networx (GE Security) of the USA and Optex of Japan, who are represented on an exclusive basis, are three of the major world manufacturers of intruder detection equipment. Value is added through system design, application, operation advice and installation training.

In the South African operation sales increased by 17% to R343 million on slightly improved volumes. Costs were well controlled leading to a solid 20% increase in operating profit of R55 million. As a result, the operating margin improved slightly and the RONA increased to 78%.

During the past year there has been a drive to incorporate IP (Internet Protocol) technology into intruder detection and CCTV products and services by utilising GSM and GPRS wireless data transmission mechanisms which can be configured to existing TCP/IP Networks. This will enable users to monitor security systems via the internet or on mobile phones instead of using radio frequencies and phone lines, which have transmission limitations and deficiencies in dependable signal verification. Video images can be sent by these means with a lot more detail, speed and accuracy to control room or reaction services. To this end Elvey has established a secure and dedicated APN (Access Point Name – an internet network to which GSM/GPRS devices can be connected) to channel alarm signals and video images through secure dedicated bandwidth. If these initiatives are successful it will give Elvey a source of annuity income absent in its business today.

Principal brands

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

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

Japanese intrusion detection devices.
Sole distributor since 1987

Taiwanese manufacturer of CCTV cameras.
Sole distributor since 2007

Korean manufacturer of video security systems.
Distributor since 2004

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

The loss making UK business was closed this year. After the disappointment of DSC's decision not to make the required technical updates to its product range to keep pace with regulatory changes, unsuccessful attempts had been made over the years to introduce new exclusive brands into the UK security market. At operating profit level the business lost R6 million in 2008 before it was closed. Closure costs of R10 million were largely offset by the reversal of the foreign currency translation reserve leaving a residual closure cost of R2 million.

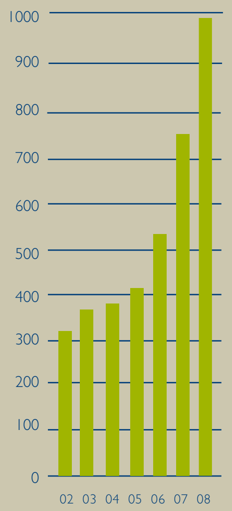
Growth in South African housing and commercial premises construction and refurbishing slowed sharply in 2008 and it may be some time before we see an improvement. The persistently high crime rate supports day to day trading activity to a great extent but growth will be hard to come by. Under these circumstances a modest increase in trading profit from the South African business can be expected and, given that the UK trading loss will not be repeated, this will translate into a reasonable increase from the division.

Flat screen LCD monitor with CCTV camera.

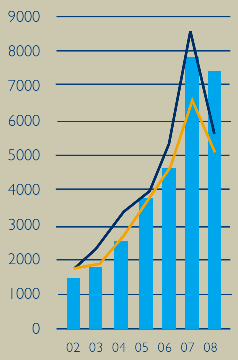
The latest self-contained DSC wireless alarm system.

CHIEF EXECUTIVE'S REVIEW OF OPERATIONS

Financial review

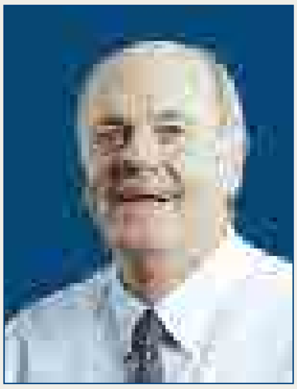


Normalised headline earnings per share (cents)



Hudaco share price (cents)

Average share price
Closing share price
Closing All Share Industrial Index (J257)



Peter Poole
Group financial director

Mzolisi Nkumanda
Group secretary

Principal financial objective

Hudaco's principal long-term financial objective is to provide shareholders with a return on their investment which compares favourably with our listed peer group. The overriding financial objective is to achieve long-term growth in earnings and dividends per share. Internal operating measures and incentive programs 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 our businesses are encouraged 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 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 maximize its returns by producing the ideal balance between operating profit margin (%) and net operating asset 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 a RONA exceeding the cost of capital. An NOA turn of between 3 and 4 times is usual for our kind of business and requires management to achieve the right balance between the elements of working capital – inventory, accounts receivable and supplier credit.

A RONA of 20% roughly equates to the pre-tax cost of capital at current interest and income tax levels. We use this as the "hurdle rate" for new investments. We have however set an internal target of no less than 30%

for the group as a whole. The group's operating profit margin in 2008 was 15,4% (2007: 14,3%) whilst NOA turn was 3.0 times (2007: 3.6 times). The RONA was therefore 46% (2007: 52%), well above the group target. Total returns to shareholders over the last ten years have outperformed the Industrial Index (J257), thus meeting our objective.

Earnings

This year normalised headline earnings per share of 995 cents are up 33% on 2007. Over the last seven years normalised headline earnings per share have grown by nearly 215% from 316 cents in 2002 to 995 cents, a compound growth rate of 21% per annum. Over the same period earnings in the Industrial Index (J257) have grown by a compound growth rate of 19% per annum thus meeting our objective. Hudaco's price earnings ratio (based on normalised headline earnings per share) of 6.1 at the end of the 2008 financial year is 50% of the J257 Industrial Index price-earnings ratio of 11,6.

Dividends

Hudaco's dividend policy changed in May 2008. Following a review of the group's cash flow characteristics and the interim and final dividends were rebalanced. It is now our intention to pay an interim and final cash dividend to shareholders of approximately 40% (previously 33%) of normalised headline earnings. This year's normal dividends totals 400 cents (last year 260 cents) – up 54% on last year and made up as follows:

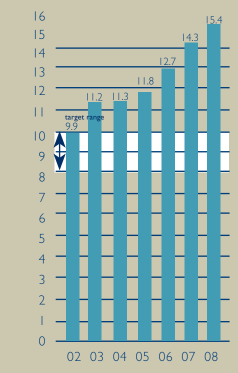
	2008	2007	% change
Interim	**130c**	65c	+100
Final	**270c**	195c	+38
Total	**400c**	260c	+54
% of NHEPS	**40%**	35%	

A special dividend of R3,30 per share was declared in June 2007 and paid in December 2007.

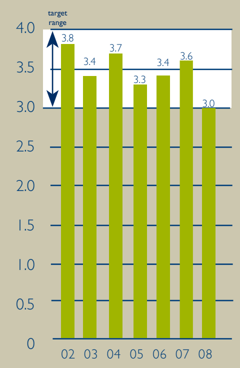
Cash flow

A summarised operating cash flow statement is set out below:

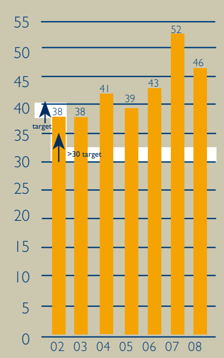
	2008	2007
	Rm	Rm
Cash generated from trading	**450**	334
Increase in working capital	**(235)**	(71)
Operating activities	**215**	263
Interest and dividends received	**213**	82
Finance costs	**(250)**	(80)
Taxation paid	**(56)**	(81)
Cash flow from operations	**122**	184



Operating profit margin %
Operating profit | Turnover



NOA* turn times
Turnover | Average NOA



Return on NOA* %
Operating profit | Average NOA

* see page seven for definition of NOA

Cash flow from operations of R122 million (232 cents per share) reflects the significant increase in working capital. After investing R20 million in plant and equipment, R141 million in new businesses and paying R214 million in dividends to shareholders, including a special dividend of R103 million, the year closed with net cash on hand of R69 million (2007: R317 million).

Borrowings

Hudaco has the capacity to take on more senior debt and we would ideally like a more geared balance sheet. However, we would aim to operate with net senior debt no higher than 50% of total shareholders' funds.

Perhaps more important than managing gearing is an objective to ensure that net interest (being interest paid on both subordinated and unsubordinated debt less interest and preference dividends received) is covered at least five times by operating profit. This year it was covered 10 times.

Taxation

The group's effective rate of taxation on normalised earnings this year is 14% (2007: 27%). The main reason why this rate is so much lower than the 28% official company tax rate is the tax free dividends received on the preferences shares acquired as part of the BEE based restructure of the group in August 2007. In future years the tax rate should climb steadily as incremental profits are taxed at the full rate.

Financial risk management

Note 26 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. Pension schemes of acquired businesses convert to defined contribution schemes on acquisition. Scheme assets and liabilities are held in separate, independently administered, funds run by trustees in terms of the Pension Funds Act.

The group's various funds have completed their surplus apportionment exercises.

One of the group funds has a dispute with the FSB about whether its' rules allowed the employer to take a contribution holiday. The FSB decision has been taken on appeal and the issue is therefore still unresolved. Although we are confident of success, the outcome of the 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 appeal be unsuccessful.

Appreciation

On behalf of the group's management I thank our retiring chairman, Peter Campbell, for the role he played in the formation and early running of the executive committee as well as leading the company through the mine-field of new corporate governance requirements over recent years.

On behalf of my colleagues in the group's senior management team, I welcome Hudaco's new chairman, Royden Vice, and thank him and our non-executive directors for the guidance they give operational management on strategic and governance issues.

I also pay tribute to Leon Coetzer who retired from DDP and the executive committee in 2008.

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

S J Connelly
Chief executive

29 January 2009

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 independent 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 Listings 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-committee's effectiveness every two years. In 2007 the evaluation indicated no major issues which required intervention.

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

There are six independent non-executive directors who have been appointed to the board for fixed terms not exceeding three years. Stuart Morris and Nosipho Molope were appointed to the board on 12 January 2009 and Peter Campbell retires in March 2009. The chairman is an independent non-executive director. There are three executive directors and one alternate executive director, Graham Dunford, who was appointed on 12 January 2009 all of whom have service contracts of indefinite term, but with three months notice of termination. The board of directors meets formally four times per year. During the 2008 financial year all directors at the time attended all meetings.

Details of the members of the board are set out on page 4.

Board committees

Executive committee

The executive committee comprises the three executive directors, the alternate executive director, and six executives (see page 5). Meetings are chaired by the chief executive. 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

CORPORATE GOVERNANCE

all of which function 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 per year. During the 2008 financial year all members attended all meetings except RC Cameron-Smith who missed one meeting.

Audit and risk management committee

The members of this committee are: JB Gibbon (chairman) and PL Campbell (both independent non-executive directors). SG Morris and CWN Molope will be invited to join the committee in due course. The chairman of the board, 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. These include the requirement to consider and monitor the independence of the external auditors and the appropriate rotation of the lead audit partner and to make recommendations to the board on the appointment or dismissal of the external auditor. 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. It also considers the appropriateness of the expertise and experience of the group financial director. 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 external auditors and the 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 approves the use of the external auditors for non-audit services. In particular, it reviews the interim and annual financial statements before submission to the board.

Extensive in-house and external training is given in a wide range of practical and theoretical subjects to better equip all employees.

The committee meets three times per 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 board has determined that the audit committee fulfilled its responsibilities for the year under review, and as required reports that it is satisfied as to the expertise and experience of the financial director and independence of Grant Thornton as external auditor.

Remuneration committee

The committee consists of PL Campbell (chairman), YKN Molefi, and RT Vice (all independent 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 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, performance and service agreements for members of the executive committee.

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 group 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. Some parts of short-term performance related remuneration may have no cap. Earnings of up to 75% of fixed remuneration is paid in full in the year in which it is earned whilst half of the payment for achieving above 75% is carried forward one year and only paid 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. There are still some shares in the old Hudaco share incentive scheme which have not yet been taken up. Since 2006 the group has been running a share appreciation bonus scheme. Awards are made every two years and 526 000 were awarded this year. 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 awards to vest is the achievement of a cumulative increase in headline earnings per share of CPIX plus 5% per annum between the date of the award and the vesting date.

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

Individual directors' remuneration is disclosed under note 29.3 on page 60.

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:

- Decentralised and self accounting operational and financial management;
- An approval framework with defined authority limits;
- A detailed budgeting system;
- The preparation of forecasts, which are regularly reviewed and updated;
- Monthly reporting of income 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 on a regular basis.

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 functions 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 on a continuous basis.

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 judgments, 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. An external audit provides reasonable assurance that the financial statements are free of material misstatement.

Social responsibility and sustainability report

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

Black economic empowerment

On page ten the chairman reports on this subject in some detail.

Skills development

Hudaco is aware of the need to appoint previously disadvantaged individuals to management positions in the group. In order to achieve this, initial consideration for any vacancy is given exclusively 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. The group is running an in-house Leadership Development Programme in conjunction with the University of Pretoria (GIBS).

Hudaco provides financial 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 full time employment.

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

Beneficiaries of the Thuthuka Bursary Fund supported by Hudaco annually.

Corporate social investment

Each year the Hudaco board sets aside a specific amount for corporate social investment. Charitable institutions are supported by Hudaco and, mainly through these donations, Hudaco is involved with a number of specific projects aimed at improving the lives of previously disadvantaged communities.

The group's BEE transaction resulted in two new shareholders, each with a 5% holding in the group's main operating subsidiary, Hudaco Trading, who are starting to play a large part in the group's future corporate social investment. They are:

- A Broad-Based BEE Foundation which is run by trustees, 50% of whom are independent, and which will distribute 85% of its annual net income to promote commercial orcommunity-based projects in welfare, healthcare, housing and education. At least 50% of the distributions will be to black women.

Johannesburg Child Welfare Society
one of the beneficiaries of the annual donations by Hudaco.

- A Hudaco Staff Education Trust which is run by trustees, 50% of whom are independent, and which will empower current and future black employees, 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 2009 and the first grants have already been awarded in respect of the 2009 academic year.

Support for SMME's

A number of initiatives are in operation in the group, all 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 live by.

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. Employment Equity plans and strategies are in place and updated in compliance with the Employment Equity Act.

The group's staff complement in management and skilled occupational levels are as follows:

Occu-pational level	Black	Coloured	Asian	White	**Total**	Male	Female
2008							
Management	11	2	3	168	**184**	164	20
Skilled	185	68	78	538	**869**	646	223
2007							
Management	2	2	3	154	**161**	143	18
Skilled	173	75	76	535	**859**	633	226

Communicating with shareholders

The chairman, 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 web site and in the press and shareholders receive a hard copy thereof timeously.

Dealing in securities

The company 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, members of the executive committee, 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

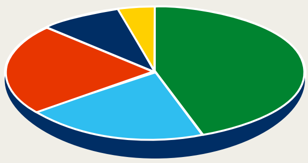
The board of Hudaco is of the view that the company complies with the Code of Corporate Practices and Conduct of the King II Report.

VALUE-ADDED STATEMENT

For the year ended 30 November 2008

	2008 R000	2007 R000
Turnover	**2 765 661**	2 226 868
Less: cost of materials, facilities and services from outside the group	**1 854 402**	1 504 059
Value-added	**911 259**	722 809
Dividends received from preference shares	**200 404**	66 618
Total wealth created	**1 111 663**	789 427
Distributed to:		
Employees – salaries, wages and other benefits	**469 500**	392 742
Government – company taxation	**55 553**	86 464
Net finance costs	**240 405**	65 336
Shareholders – dividends	**112 123**	168 818
Maintain and expand the group		
– profits retained	**219 444**	63 979
– depreciation	**14 638**	12 088
Total wealth distributed	**1 111 663**	789 427

Distribution of wealth created %



	2008	2007
Employees	42	50
Lenders	22	8
Reinvested	21	10
Shareholders	10	21
Taxation	5	11

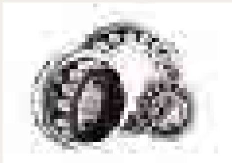
STATEMENT OF GROSS CONTRIBUTIONS TO THE GOVERNMENT IN SA

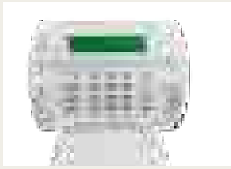
For the year ended 30 November 2008

	2008 R000	2007 R000
Company income tax and STC	**54 839**	85 729
Customs and excise duty	**36 347**	23 678
Net SD levies and assessment rates	**4 620**	2 719
Value-added tax not deemed an input credit	**1 195**	1 122
Direct contribution to government	**97 001**	113 248
Add the following collected on behalf of government:		
Value-added tax (net)	**78 611**	59 420
Employees' tax	**71 053**	59 394
Gross contributions by the group to government in SA	**246 665**	232 062

FINANCIAL STATEMENTS

Hudaco





2008

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"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 Industries Limited 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 35 to 65 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 34.

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 35 to 65, which were approved by the board on 29 January 2009 and are signed on its behalf.

RT Vice
Chairman

SJ Connelly
Chief executive

29 January 2009

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF HUDACO INDUSTRIES LIMITED

Report on the financial statements

We have audited the accompanying group annual financial statements and separate annual financial statements of Hudaco Industries Limited, which comprise the directors' report, the consolidated and separate balance sheets as at 30 November 2008, the consolidated and separate income statements, the consolidated and separate statements of changes in equity and consolidated and separate cash flow statements for the year then ended and notes which include a summary of significant accounting policies and other explanatory notes, as set out on pages 35 to 65.

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 annual financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the annual 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 annual 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 annual 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 annual financial statements present fairly, in all material respects, the financial position of Hudaco Industries Limited as of 30 November 2008, and its consolidated and separate financial performance and consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards, and 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

29 January 2009

137 Daisy Street
Cnr Grayston Drive
Sandown 2196
Johannesburg

For the year ended 30 November 2008

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, paid and proposed for the 2008 financial year:

Special 2007 (declared in June 2007)

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

Final 2007

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

Interim 2008

Dividend No 43	130c
Record date	15 August 2008
Paid	18 August 2008

Final 2008 – proposed

Dividend No 44	270c
Record date	13 March 2009
Payable	16 March 2009

Directors

There are six independent non-executive directors:
RT Vice, PL Campbell, JB Gibbon, YKN Molefi, CWN Molope and SG Morris. Nosipho Molope and Stuart Morris were appointed on 12 January 2009 (refer to page 4).

There are three executive directors: SJ Connelly, GE Gardiner and PM Poole, and an alternate director GR Dunford who was appointed on 12 January 2009 (refer to page 4).

In accordance with the company's articles of association, JB Gibbon, GE Gardiner, CWN Molope and SG Morris retire at the forthcoming annual general meeting. The retiring directors are eligible and offer themselves for re-election.

Acquisitions

Hudaco Trading acquired 100% of the businesses of Astore Africa Group and Ambro Sales on 1 February 2008 and 1 March 2008 respectively for an aggregate purchase consideration of R152 million. Property, plant and equipment of R11 million, working capital (inventories, accounts receivable and accounts payable) of R69 million, goodwill and other intangible assets (brand name and customer relations) of R82 million, and deferred tax liabilities of R10 million were recognised at date of acquisition. These values approximate the fair value as determined under IFRS 3. The accounting for the acquisitions has been finalised as the valuations of intangible assets were completed by the end of this financial year. These acquisitions increased the reported attributable earnings of the group for the year by R7 million and if both these acquisitions had been effective on 1 December 2007 the turnover and attributable earnings of the group would have been approximately R2 800 million and R305 million respectively.

Disposals

The group disposed of its Elvey UK operations for R1,2 million. This disposal resulted in a loss of R9,8 million and a release from foreign currency translation reserve of R8,2 million - a net loss of R1,6 million.

Authorised and issued share capital

The authorised share capital remained unchanged during the year. The issued share capital was increased by R16 934 to R3 343 078 through the issue of 169 336 shares of 10 cents each to employees in terms of the share incentive scheme for a total consideration of R4 138 291 (average of R24,44 per share).

Resolutions adopted by subsidiary companies

Special resolution

DD Power Holdings (Pty) Ltd replaced its existing articles of association with new consolidated articles of association.

GROUP INCOME STATEMENT

For the year ended 30 November 2008

	Notes	2008 R000	2007 R000
Turnover		**2 765 661**	2 226 868
Ongoing operations		**2 520 439**	2 156 307
Operations acquired in 2008		**221 138**	
Operations discontinued in 2008		**24 084**	70 561
Cost of sales		**1 683 798**	1 382 638
Gross profit		**1 081 863**	844 230
Operating expenses		**654 742**	526 251
Operating profit	4	**427 121**	317 979
Ongoing operations		**402 196**	319 765
Operations acquired in 2008		**30 692**	
Loss in operations discontinued in 2008		**(5 767)**	(1 786)
Cost to introduce BEE shareholders	5		43 913
Net loss on closure of operations discontinued in 2008	6	**1 623**	
Profit before interest		**425 498**	274 066
Dividends received on investment in preference shares		**200 404**	66 618
Interest received		**12 450**	15 406
Finance costs	7	**(252 855)**	(80 742)
Profit before taxation		**385 497**	275 348
Taxation	9	**55 553**	86 464
Profit after taxation		**329 944**	188 884
Attributable to:			
Shareholders of the group		**306 869**	182 802
Minorities	10	**23 075**	6 082
		329 944	188 884
Basic earnings per share (cents)	11	**995**	606
Diluted basic earnings per share (cents)	11	**970**	586

Headline earnings per share (cents)	11	**964**	**605**
Diluted headline earnings per share (cents)	11	**940**	**585**
Normalised headline earnings per share (cents)	11	**995**	750
Diluted normalised headline earnings per share (cents)	11	**970**	726

GROUP BALANCE SHEET

At 30 November 2008

	Notes	2008 R000	2007 R000
Assets			
Non-current assets		**2 429 418**	2 332 805
Property, plant and equipment	12	**92 211**	73 717
Investment in preference shares	13	**2 180 966**	2 180 966
Goodwill	14	**131 226**	76 619
Intangible assets	15	**25 015**	
Deferred taxation	20		1 503
Current assets		**1 421 859**	1 260 060
Inventories	16	**779 878**	544 079
Accounts receivable	17	**507 413**	398 697
Bank deposits and balances		**134 568**	317 284
Total assets		**3 851 277**	3 592 865
Equity and liabilities			
Equity		**1 054 744**	835 411
Shareholders' equity		**1 015 050**	806 847
Minority interest		**39 694**	28 564
Non-current liabilities		**2 203 261**	2 180 966
Subordinated debenture	19	**2 180 966**	2 180 966
Deferred taxation	20	**4 609**	
Amounts due to vendors of businesses acquired	21	**17 686**	
Current liabilities		**593 272**	576 488
Accounts payable	22	**488 207**	434 419
Amounts due to bankers		**65 197**	
Amounts due to vendors of businesses acquired	21	**6 675**	10 477
Shareholders for special dividend			101 498
Taxation		**33 193**	30 094
Total equity and liabilities		**3 851 277**	3 592 865

GROUP CASH FLOW STATEMENT

For the year ended 30 November 2008

	Notes	2008 R000	2007 R000
Cash (applied to) retained from operating activities			
Operating profit		**427 121**	317 979
Add back non-cash items:			
Cost of equity compensation		**6 490**	4 680
Depreciation and surplus on disposal of property, plant and equipment		**12 537**	11 707
Amortisation of intangible assets		**3 053**	
Cash generated from trading		**449 201**	334 366
Increase in working capital	24.1	**(234 842)**	(71 188)
Cash generated from normal operating activities		**214 359**	263 178
Fair value adjustment of cash flow hedges		**1 048**	216
Finance costs	24.2	**(250 594)**	(80 148)
Dividends and interest received		**212 854**	82 024
Taxation paid	24.3	**(55 948)**	(81 080)
Cash flow from operations		**121 719**	184 190
Special dividend paid		**(101 498)**	
Ordinary dividends paid	24.4	**(112 123)**	(67 320)
Cash (applied to) retained from operating activities		**(91 902)**	116 870
Cash utilised in investment activities			
Investment in new businesses	24.5	**(128 346)**	(27 084)
Payments to vendors of businesses acquired		**(13 399)**	(7 993)
Property, plant and equipment – additions		**(25 136)**	(20 607)
– disposals		**5 071**	3 553
Discontinuation of businesses	24.6	**1 661**	
Minority interest acquired			(286)
Subtotal		**(160 149)**	(52 417)
Investment in preference shares			(2 180 966)
Net cash invested		**(160 149)**	(2 233 383)
Net cash applied after investment		**(252 051)**	(2 116 513)
Cash flows from financing activities			
Issue of subordinated debenture			2 180 966
Increase (decrease) in amounts due to bankers		**65 197**	(50 000)
Increase in shareholder funding		**4 138**	14 441
Cash flow from financing activities		**69 335**	2 145 407
(Decrease) increase in cash and cash equivalents		**(182 716)**	28 894
Cash and cash equivalents at beginning of the year		**317 284**	288 390
Cash and cash equivalents at end of the year		**134 568**	317 284
Cash flow per share (cents)	24.7	**232**	563

GROUP STATEMENT OF CHANGES IN EQUITY

For the year ended 30 November 2008

R000	Share capital	Share premium	Non-dis-tributable reserves	Retained income	Share-holders' equity	Minority interest	Equity
Note	18.2		18.6	18.4			
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 reserves			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 operation			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 23)				(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**
Balance at 30 November 2007	3 326	30 117	57 231	734 879	**825 553**	28 564	**854 117**
Profit after taxation				306 869	**306 869**	23 075	**329 944**
Increase in equity compensation reserve			6 490		**6 490**		**6 490**
Translation of foreign operation			1 048		**1 048**		**1 048**
Realised on disposal of foreign operation (note 6)			(8 179)		**(8 179)**		**(8 179)**
Movement on fair value of cash flow hedges			(1 985)		**(1 985)**		**(1 985)**
Issue of 169 336 shares	17	4 121			**4 138**		**4 138**
Dividends (note 23)				(100 178)	**(100 178)**	(11 945)	**(112 123)**
Balance at 30 November 2008	3 343	34 238	54 605	941 570	**1 033 756**	39 694	**1 073 450**
Less shares held by subsidiary company	(251)		(41)	(18 414)	**(18 706)**		**(18 706)**
Net balance at 30 November 2008	3 092	34 238	54 564	923 156	**1 015 050**	39 694	**1 054 744**

NOTES TO THE GROUP FINANCIAL STATEMENTS

For the year ended 30 November 2008

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 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.

1.4 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.

1.5 Intangible assets

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

If assessed as having a finite life, it is amortised over its useful life using the straight-line basis and tested for impairment if there is an indication that it may be impaired. If assessed to have an indefinite useful life, the intangible asset is not amortised but tested for impairment at least annually and impaired immediately if necessary.

1.6 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.

1.7 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 was 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.

1.18 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.

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

In preparing the financial statements, management is required to make estimates and assumptions that affect reported income, expenses, assets, liabilities and disclosure of financial instruments and contingent liabilities. Use of available information and the application of judgement are inherent in the formation of estimates.

Significant estimates and judgements are made in the following areas:
Property, plant and equipment – useful lives and residual values – note 12
Investments – note 13
Impairment of goodwill tests – note 14
Fair value and impairment of intangible assets – note 15
Inventories – allowance for slow-moving and obsolete inventory – note 16
Trade receivables – allowance for doubtful debts – note 17
Fair value of share-based payments – note 18.5
Contingent liabilities – the assessment, based on expert advice received, to determine whether an item is a contingent or actual liability – note 25
Fair value of financial instruments – note 26

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

3 Impact of new accounting standards and interpretations 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.

	2008 R000	2007 R000
4 Operating profit		
Operating expenses comprise:		
Staff costs	**469 500**	392 742
Property rentals under operating leases (note 25)	**39 420**	26 367
Depreciation	**14 638**	12 088
Amortisation	**3 053**	
Other expenses	**177 217**	139 043
Allocated to cost of sales	**(49 086)**	(43 989)
	654 742	526 251
Included in other expenses and cost of sales are:		
Gains on translation of foreign currency monetary items	**11 635**	267
Cost of fair value hedges	**20 204**	12 760
Surplus on disposal of property, plant and equipment	**2 101**	381

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.

	2008 R000	2007 R000
6 Net loss on closure of operations discontinued in 2008		
Impairment of assets	**9 802**	
Foreign currency translation reserve realised	**(8 179)**	
	1 623	
7 Finance costs		
Interest paid on subordinated debenture	**232 876**	76 818
Interest paid on short term interest-bearing borrowings	**17 718**	
Interest imputed on amounts due to vendors of businesses acquired	**2 261**	594
Debt raising fees		3 330
	252 855	80 742
8 Auditors' remuneration		
Audit fees – current year	**4 279**	4 137
Fees for other services	**368**	168
	4 647	4 305

	2008 R000	2007 R000
9 Taxation		
9.1 Taxation comprises		
South African normal taxation		
Current year	**55 001**	73 770
Prior years	**1 214**	844
Deferred normal taxation		
Current year	**(2 488)**	(1 110)
Prior years	**(1 058)**	(116)
Adjustment to deferred tax due to rate change	**52**	
Secondary tax on companies	**1 884**	11 259
Deferred secondary tax on companies		944
Foreign normal taxation – current year	**745**	856
Capital gains tax	**203**	17
Total taxation	**55 553**	86 464
9.2 Reconciliation of rate of taxation	**%**	%
Normal rate	**28,0**	29,0
Exempt income/foreign rate differential	**(14,6)**	(7,1)
Disallowable expenditure	**0,3**	0,2
Capital gains tax	**0,1**	
Secondary tax on companies	**0,5**	4,4
Effective rate for current year before capital items	**14,3**	26,5
Impact of non-deductible abnormal items	**0,1**	4,6
Prior year under provision		0,3
Effective rate of taxation	**14,4**	31,4
10 Minority interest		
Share of normalised earnings	**23 075**	13 024
Share of cost to introduce BEE shareholders and debt raising fees		(6 942)
	23 075	6 082
11 Headline earnings and earnings per share		
Calculation of headline earnings		
Profit attributable to shareholders of the group	**306 869**	182 802
Adjusted for:		
Surplus on disposal of property, plant and equipment after taxation	**(1 288)**	(381)
Foreign currency translation reserve realised when operation discontinued in 2008	**(8 179)**	
Headline earnings	**297 402**	182 421
Calculation of normalised headline earnings		
Headline earnings	**297 402**	182 421
Adjusted for:		
Impairment of assets in operations discontinued in 2008	**9 802**	
Minority share of impairment of assets in operations discontinued in 2008	**(423)**	
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	**306 781**	226 335

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 30 836 489 shares (2007: 30 178 313) in issue during the year, taking account of shares held by a subsidiary.

The calculation of diluted earnings per share is based on 31 632 122 shares (2007: 31 182 441), being the weighted number of shares in issue of 30 836 489 plus 795 633 deemed free issue shares. This assumes that all the shares granted in the share incentive scheme (note 18.5) at prices less than R72,94 (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 R72,94 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.

12 Property, plant and equipment

2008	Freehold land and buildings	Plant	Computers	Motor vehicles	Other assets	2008 Total R000
Cost						
Opening balance	11 309	29 830	35 235	35 443	18 964	**130 781**
Acquisition of new businesses		4 820	1 564	2 551	1 403	**10 338**
Transferred from goodwill		899				**899**
Discontinuation of operation			(1 629)		(863)	**(2 492)**
Additions		7 640	5 588	8 234	3 674	**25 136**
Currency adjustments			169		56	**225**
Disposals	(462)	(538)	(3 172)	(4 760)	(666)	**(9 598)**
Closing balance	10 847	42 651	37 755	41 468	22 568	**155 289**
Accumulated depreciation						
Opening balance	2 950	11 627	20 302	13 054	8 131	**56 064**
Discontinuation of operation			(1 455)		(688)	**(2 143)**
Depreciation for the year	110	2 540	4 990	4 655	2 343	**14 638**
Currency adjustments			109		38	**147**
Disposals	(168)	(155)	(3 048)	(2 803)	(454)	**(6 628)**
Closing balance	2 892	14 012	20 898	14 906	9 370	**62 078**
Impairment						
Opening balance	1 000					**1 000**
Closing balance	1 000					**1 000**
Net book value	6 955	28 639	16 857	26 562	13 198	**92 211**

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
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.

	2008 R000	2007 R000
13 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 wholly owned subsidiary of Cadiz Asset Management (see note 26.3)	**2 180 966**	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 19). Dividends are received quarterly at a rate of 9,2% nominal annual compounded quarterly.		
Directors' valuation	**2 180 966**	2 180 966
14 Goodwill		
14.1 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	**144 261**	104 799
Less accumulated amortisation to 31 March 2004	**(11 535)**	(17 082)
Less accumulated impairment from 1 April 2004	**(1 500)**	(11 098)
	131 226	76 619
14.2 Movement for the year		
Balance at beginning of year	**76 619**	57 246
Acquisitions during the year	**55 687**	15 814
Cost of goodwill disposed	**(15 145)**	
Accumulated amortisation of goodwill disposed	**5 547**	
Accumulated impairment of goodwill disposed	**9 598**	
Adjustments to purchase consideration	**661**	3 559
Transferred to plant, intangible assets and deferred taxation in respect of acquisitions in 2007	**(1 741)**	
	131 226	76 619

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 higher 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 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.

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 on the acquisition of Astore Africa and Ambro Sales includes an element of purchase consideration based on the attainment of targeted levels of profitability for the periods ending November 2009 and November 2010, respectively. Adjustments to the related goodwill are made if interim and final targets are either not met or exceeded.

15 Intangible assets

2008	Customer contracts	Other	2008 Total R000	2007 Total R000
Cost				
Transferred from goodwill	1 520		**1 520**	
Acquisition of new businesses	14 404	12 144	**26 548**	
Closing balance	15 924	12 144	**28 068**	
Accumulated amortisation				
Amortisation for the year	2 378	675	**3 053**	
Net book value	13 546	11 469	**25 015**	
The initial useful lives are set within these ranges (years)	3 – 6	14		

Intangible assets were acquired as part of the acquisitions of new businesses during the current and previous year. The cost to these assets have been determined by external valuation specialists during the current year. All intangible assets are tested for impairment annually in accordance with the Group's accounting policies (note 1.5). There were no indications of impairment during the current year.

	2008 R000	2007 R000
16 Inventories		
Raw materials and components	**22 681**	9 328
Work in progress	**37 119**	23 669
Finished goods	**18 032**	8 995
Merchandise	**702 046**	502 087
	779 878	544 079
Cost of inventory recognised as an expense in cost of sales	**1 634 712**	1 338 595
Inventory that is expected to be sold after more than 12 months	**112 000**	85 000
Write-down of inventory to net realisable value and losses of inventory	**5 526**	5 287

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.

	2008 R000	2007 R000
17 Accounts receivable		
Trade receivables	**467 503**	385 222
Less: Allowance for doubtful receivables	**(14 179)**	(10 307)
Other receivables and prepayments	**34 886**	23 782
Fair value of forward exchange contracts	**19 203**	
	507 413	398 697
Per category:		
Loans and receivables	**488 210**	398 697
Derivatives used for hedging	**19 203**	
	507 413	398 697
Allowance for doubtful receivables		
At 1 December	**10 307**	8 981
Additional allowance charged to profit or loss	**9 737**	4 177
Allowance reversed to profit or loss	**(828)**	(878)
Allowance utilised	**(5 127)**	(2 055)
Acquisitions	**10**	77
Exchange adjustments	**80**	5
	14 179	10 307

	2008 R000	2007 R000

17 Accounts receivable (continued)

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

At year end trade receivables of R83,5 million (2007: R58.4 million) were past due but not impaired, being customers of whom there is no recent history of default and are aged as follows:

	2008 R000	2007 R000
Less than 30 days since date due	**51 724**	28 378
Between 31 and 60 days	**17 504**	14 781
Between 61 and 90 days	**9 323**	8 436
More than 90 days	**4 919**	6 833
	83 470	58 424

18 Shareholders' equity

18.1 Authorised share capital

	2008 R000	2007 R000
40 000 000 (2007: 40 000 000) ordinary shares of 10 cents each	**4 000**	4 000

18.2 Issued share capital

	2008 R000	2007 R000
33 430 774 (2007: 33 261 438) ordinary shares	**3 343**	3 326
Less: 2 507 828 (2007: 2 507 828) ordinary shares held by subsidiary company – 8%	**(251)**	(251)
Net 30 922 946 (2007: 30 753 610) ordinary shares	**3 092**	3 075

18.3 Unissued shares

2 730 000 (2007: 2 658 000) unissued shares have been made available to the employee share incentive scheme. (See note 18.5)

18.4 Retained income

	2008 R000	2007 R000
Income retained in:		
Company	**191 769**	129 446
Subsidiary companies	**731 387**	587 019
	923 156	716 465

18.5 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) 2008	2007
Shares issued within the last 10 years in terms of the schemes		
Balance at beginning of year	**3 462**	2 912
Less: shares issued in 1998 that can be re-issued from 30 November 2007	**(210)**	(210)
Add: shares issued in current year	**169**	760
Balance at end of year	**3 421**	3 462
Options granted and deferred delivery shares not yet taken up in the share incentive scheme	**726**	896
Shares made available to meet obligations in terms of the share appreciation bonus scheme	**1 334**	798
Shares available to be granted in terms of both schemes in the future	**670**	964
Total specifically authorised to be issued in terms of all schemes – 18,4% of issued shares	**6 151**	6 120

18.5 Employee share-based remuneration schemes (continued)

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		**Number of shares (000)**	
	2008	2007	**2008**	2007
Rights to shares not taken up at beginning of the year	**2 411c**	2 176c	**896**	1 659
Shares delivered during the year	**2 445**	1 899	**(169)**	(760)
Forfeited on resignation during the year			**(1)**	(3)
Rights to shares not taken up at end of the year	**2 403c**	2 411c	**726**	896
The earliest dates that these shares may be taken up are as follows:				
Exercisable at 30 November 2008	**2 324c**		**303**	
Exercisable between 1 December 2008 and 30 November 2009	**2 460**		**423**	
			726	

The following shares were taken up during the year:

	Average share price in cents 2008	**Weighted average subscription price in cents 2008**	**Number of shares (000) 2008**
December	**8 319c**	**2 460c**	**3**
March	**7 199**	**2 460**	**52**
April	**7 529**	**2 460**	**56**
May	**8 038**	**2 222**	**11**
July	**7 634**	**2 460**	**7**
August	**7 495c**	**2 460c**	**40**
		2 445c	**169**

	Weighted average strike price in cents		**Number of shares (000)**	
	2008	2007	**2008**	2007
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 028c**	4 305c	**798**	793
Rights granted during the year	**6 776**	8 500	**526**	10
Forfeited during the year		(4 305)		(5)
Change in strike price during the year[1]		(330)		
Rights not taken up at end of year	**5 119c**	4 028c	**1 324**	798
These rights may first be exercised in the financial years ended:				
November 2009	**4 100c**		**326**	
November 2010	**4 300**		**337**	
November 2011	**5 300**		**391**	
November 2012	**7 100**		**148**	
November 2013	**7 000c**		**122**	
			1 324	

18.5 Employee share-based remuneration schemes (continued)
Share appreciation bonus scheme

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	Grant 2	Grant 3	Grant 4
Date of grant	17 Mar 2004	7 Jun 2006	1 Aug 2007	15 Feb 2008	18 Nov 2008
Number of rights granted	1 309 000	793 900	10 000	404 767	120 800
Exercise price (R) – strike price	24,60	39,75(1)	81,70(1)	71,45	55,40
Share price at grant date (R)	24,60	47,50	80,00	72,00	55,50
Expected volatility (%)	20	25	25	25	25
Expected dividend yield (%)	5,0	3,8	3,9	4,0	4,0
Risk-free rate (%)	10,2	8,2	9,1	8,6	8,7
Vesting period (years)	3 to 5	3 to 5	3 to 5	3 to 5	2 to 5
Estimated fair value per right (R)(2)	8,18	13,83	30,00	19,83	10,77

(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.

	2008 R000	2007 R000
Employee share-based payment expense included in operating profit		
Expense arising from share incentive scheme	**1 901**	1 840
Expense arising from share appreciation bonus plan	**4 589**	2 840
Total share-based payment expense	**6 490**	4 680

18.6 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 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 operation			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
Balance at 30 November 2007	332	1 686	7 131	10 756	37 326	57 231
Increase in equity compensation reserve				6 490		6 490
Translation of foreign operation			1 048			1 048
Realised on disposal of foreign operation			(8 179)			(8 179)
Movement in fair value of cash flow hedges		(1 985)				(1 985)
Balance at 30 November 2008	332	(299)		17 246	37 326	54 605
Less shares held by subsidiary company	(41)					(41)
Net balance at 30 November 2008	291	(299)		17 246	37 326	54 564

19 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. R25 million of the interest payable up to 31 August 2009 has not been subordinated (see note 25.2). The debenture is secured by a pledge of the group's investment in preference shares (see note 13).

	2008 R000	2007 R000
20 Deferred taxation		
20.1 Deferred taxation comprises temporary differences arising from:		
Accelerated capital allowances	**8 891**	8 067
Intangible assets	**7 004**	
Doubtful debt allowances	**(2 734)**	(2 153)
Leave pay accruals	**(5 804)**	(4 979)
Other	**(2 748)**	(2 438)
Net deferred taxation liability	**4 609**	(1 503)
20.2 Movement for the year		
Balance at beginning of year	**(1 503)**	(1 221)
Transferred from goodwill	**678**	
Arising on acquisitions during the year	**8 928**	
Effect of rate change	**166**	
Utilised during the year	**(3 660)**	(282)
Balance at end of year	**4 609**	(1 503)

21 Amounts due to vendors of businesses acquired

Represents the estimated amounts due to vendors of businesses acquired in 2008 and includes interest imputed at 11,5% per annum. The amounts finally payable are subject to adjustment based on earnings of the businesses up to November 2010. The final adjustments to the amounts will be debited or credited to goodwill.

	2008 R000	2007 R000
22 Accounts payable		
Trade payables	**355 712**	330 983
Fair value of forward exchange contracts		402
Other payables and amounts due	**132 495**	103 034
	488 207	434 419

Included in other payables and amounts due are payroll and other accruals.
All accounts payable are carried at amortised cost.

	2008 R000	2007 R000
23 Dividends		
23.1 Normal dividends		
Dividend number 42 of 195 cents per share declared on 31 January 2008	**64 873**	45 539
The record date was 14 March 2008 and the dividend was paid on 17 March 2008		
Dividend number 43 of 130 cents per share declared on 26 June 2008	**43 455**	21 562
The record date was 15 August 2008 and the dividend was paid on 18 August 2008		
Dividends paid to subsidiary company	**(8 150)**	(5 141)
	100 178	61 960

	2008 R000	2007 R000
23 Dividends (continued)		
23.2 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

23.3 On 29 January 2009 the directors declared dividend number 44 of 270 cents per share, being the final dividend in respect of 2008. The record date will be 13 March 2009 and the dividend will be paid on 16 March 2009. This dividend has not been included as a liability in these financial statements.

24 Notes to cash flow statement

	2008 R000	2007 R000
24.1 Increase in working capital		
Increase in inventories	**(174 419)**	(82 518)
Increase in accounts receivable	**(78 477)**	(42 705)
Increase in accounts payable	**20 117**	51 570
Translation gain on working capital in foreign operation	**(2 063)**	2 465
	(234 842)	(71 188)
24.2 Finance costs		
Finance costs per income statement	**(252 855)**	(80 742)
Imputed on amounts due to vendors of businesses acquired	**2 261**	594
	(250 594)	(80 148)
24.3 Taxation paid		
Amounts owed at beginning of the year	**(30 094)**	(24 428)
Current tax charge	**(55 001)**	(73 770)
Prior year under provision	**(1 214)**	(844)
Secondary tax on companies	**(1 884)**	(11 259)
Foreign tax charge	**(745)**	(856)
Capital gains tax	**(203)**	(17)
Amounts owed at end of the year	**33 193**	30 094
	(55 948)	(81 080)
24.4 Dividends paid		
To Hudaco shareholders	**(100 178)**	(61 960)
To minorities	**(11 945)**	(5 360)
	(112 123)	(67 320)
24.5 Investment in new businesses		
Plant and equipment	**(10 338)**	(1 430)
Goodwill	**(55 687)**	(15 814)
Intangible assets	**(26 548)**	
Inventories	**(70 918)**	(9 655)
Accounts receivable	**(38 214)**	(1 375)
Amounts due to bankers (cash and cash equivalents)	**5 051**	(13)
Deferred taxation	**8 928**	
Accounts payable	**40 070**	1 190
Purchase consideration	**(147 656)**	(27 097)
Amounts due to vendors of businesses acquired	**24 361**	
Amounts due to bankers (cash and cash equivalents)	**(5 051)**	13
Net cash flow	**(128 346)**	(27 084)

	2008 R000	2007 R000
24 Notes to cash flow statement (continued)		
24.6 Discontinuation of business		
Plant and equipment	**349**	
Inventories	**9 538**	
Accounts receivable	**7 975**	
Accounts payable	**(6 399)**	
Net operating assets disposed	**11 463**	
Loss on disposal of operating assets	**(9 802)**	
Net cash flow from business discontinued	**1 661**	
24.7 Cash flow per share		
Cash flow from operations	**121 719**	184 190
Minority participation	**(50 055)**	(14 383)
Cash flow from operations attributable to ordinary shareholders	**71 664**	169 807
Cash flow per share (cents)	**232**	563

25 Commitments and contingencies

25.1 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.

	2008 R000	2007 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	**34 870**	27 290
In second to fifth years	**63 742**	48 601
	98 612	75 891

25.2 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 R21,0 million (2007: R49,6 million), which declines at approximately R7 million per quarter.

25.3 Property, plant and equipment

The group has budgeted to spend R31,3 million to acquire property, plant and equipment in 2009, R8 million of which is committed or contracted for. Total capital expenditure will be financed by net cash flow from operations and the utilisation of cash.

25.4 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 as an 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.

	2008 R000	2007 R000

26 Financial instruments

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

26.1 Summary of financial instruments

26.1.1 Carrying value of financial instruments

	2008 R000	2007 R000
Financial assets by class – at carrying value:		
Investment in preference shares	**2 180 966**	2 180 966
Trade receivables	**453 324**	374 915
Other receivables and prepayments	**34 886**	23 782
Bank deposits and balances	**134 568**	317 284
Fair value of forward exchange contracts	**19 203**	
	2 822 947	2 896 947
Financial assets by category:		
Held to maturity financial assets	**2 180 966**	2 180 966
Loans and receivables	**622 778**	715 981
Derivatives used for hedging	**19 203**	
	2 822 947	2 896 947
Financial liabilities by class – at carrying value:		
Subordinated debenture	**2 180 966**	2 180 966
Amounts due to vendors of businesses acquired	**24 361**	10 477
Trade payables	**355 712**	330 983
Other payables	**132 495**	103 034
Amounts due to bankers	**65 197**	
Fair value of forward exchange contracts		402
	2 758 731	2 625 862
Financial liabilities by category:		
Measured at amortised cost	**2 758 731**	2 625 460
Derivatives used for hedging		402
	2 758 731	2 625 862

26.1.2 Fair value of financial instruments

	2008 R000	2007 R000
Financial assets by class – at fair value:		
Investment in preference shares – including related put option	**2 122 924**	2 227 032
Trade receivables	**453 324**	374 915
Other receivables	**34 886**	23 782
Fair value of forward exchange contracts	**19 203**	
Bank deposits and balances	**134 568**	317 284
	2 764 905	2 943 013
Financial liabilities by class – at fair value:		
Subordinated debenture	**1 949 255**	2 179 399
Amounts due to vendors of businesses acquired	**24 361**	10 477
Trade payables	**355 712**	330 983
Other payables	**132 495**	103 034
Amounts due to bankers	**65 197**	
Fair value of forward exchange contracts		402
	2 527 020	2 624 295

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

26.2 Market risk

26.2.1 Foreign currency risk

i) Trade commitments

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 12 months. The objective is to have forward cover in place well before goods are shipped.

Cash flow hedges-imports – at 30 November 2008 the group had entered into the following forward exchange contracts relating to forecast purchase transactions i.e. orders placed on suppliers but not yet shipped. These contracts for the purchase of foreign currency will be utilised for settlement of shipments received during the next two months:

	Year-end spot rate	Foreign amount 000	Contract rate*	Rand equivalent R000
Japanese Yen	9,56	130 873	9,21	14 210
US Dollar	9,97	1 862	9,95	18 527
Pounds Sterling	15,37	484	16,04	7 763
Euro	12,88	1 397	13,13	18 337
Total cost of contracts				58 837
Fair value – Rand equivalent of the above contracts at year-end spot rates				57 683
Loss recognised directly in equity on import orders (See note 18.6)				(1 154)

Significant export orders will also expose the group to currency risk. Group policy is to take forward cover on significant foreign currency accounts receivable (which effectively changes them from foreign to local currency assets) and on a portion of orders received but not yet shipped.

Cash flow hedges-exports – at 30 November 2008 the group had entered into the following forward exchange contracts relating to forecast sale transactions, i.e. orders received from customers but not yet shipped. These contracts will be utilised for receipts expected in the first half of 2009:

	Year-end spot rate	Foreign amount 000	Contract rate*	Rand equivalent R000
US Dollar	9,97	1 154	10,71	12 365
Euro	12,88	356	12,86	4 582
Total cost of contracts				16 947
Fair value – Rand equivalent of the above contracts at year-end spot rates				16 092
Gain recognised directly in equity on exports (See note 18.6)				855
Net loss on both import and export cash flow hedges, recognised in equity (See note 18.6)				(299)

*The contract rate discounted to 30 November 2008 based on the forward points ruling at year-end – which approximates 9,7% per annum

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

ii) Other foreign currency assets

The following table represents the extent to which the group has unhedged monetary assets and liabilities in currencies other than the group companies' functional currency. Based on the net exposure it is estimated that a simultaneous 10% change in all foreign currency exchange rates against the Rand (the functional currency) will impact the fair value of the net monetary assets of the group by R4,9 million (2007: R3,1 million), of which R4,2 million (2007: R2,7 million) will impact profit or loss after taxation.

26.2 Market risk

26.2.1 Foreign currency risk (continued)

	2008 R000	2007 R000
Net foreign currency monetary assets		
Functional currency of group operation	**Pound Sterling**	Pound Sterling
Yen	**11 242**	6 427
US Dollar	**11 501**	7 601
Euro	**10 435**	7 772
	33 178	21 800

26.2.2 Interest rate risk

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.

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

	Year of repayment	Fixed interest rate %	2008 R000	2007 R000
Subordinated debenture	2017	10,7	**2 180 966**	2 180 966
Amounts due to vendors of businesses acquired	2010	11,5	**17 686**	

26.3 Credit risk

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 and procedures. Management does not consider there to be any material credit risk exposure that is not already covered by an impairment for doubtful debts.

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

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

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

	2008 R000	2007 R000
Investment in preference shares	**2 180 966**	2 180 966
Trade receivables	**453 324**	374 915
Other receivables and prepayments	**34 886**	23 782
Bank deposits and balances	**134 568**	317 284
Fair value and forward exchange contracts	**19 203**	
	2 822 947	2 896 947

26.4 Liquidity risk

The group manages liquidity risk by monitoring forecast cash flows and ensuring that adequate unutilised borrowing facilities are maintained. Unutilised facilities plus available cash resources at 30 November 2008 were R300 million.

There are a number of plans in place to deal with the redemption of the subordinated debenture in 2017 under different scenarios, none of which exposes the group to a significant liquidity risk. There is no restriction on borrowing powers in terms of the articles of association and at 30 November 2008 the group's banking facilities substantially exceeded its forecast requirements for the forthcoming year.

26.4 Liquidity risk (continued)

The maturity profile of financial liabilities is as follows:

	Total owing 2008 R000	Repayable during the year ending 30 November 2009	2009 to 2013	2014 and onwards
Subordinated debenture – repayable in full in 2017	**2 180 966**			2 180 966
Amounts due to vendors of businesses acquired	**24 361**	6 675	17 686	
Amounts due to bankers	**65 197**	65 197		
Trade payables	**355 712**	355 712		
Other payables	**132 495**	132 495		

	2008 R000	2007 R000
26.5 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 26.2.1)	**(299)**	1 686
Fair value hedges (on contracts of R270 million at year-end spot rates)	**19 502**	(2 088)
	19 203	(402)

The book value of all non-derivative financial instruments approximates their fair value at 30 November 2008.

26.6 Capital management

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

In setting the ideal mix between debt and equity, the group seeks to optimise its return on shareholders equity while maintaining prudent balance sheet gearing. Generally, the objective is to operate with net unsubordinated debt at no higher than 50% of shareholders' equity.

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

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

Importantly, in setting the maximum amount of unsubordinated debt we would carry, our objective would also be to have net interest covered at least 5 times by operating profit; net interest being interest paid on both subordinated and unsubordinated debt less interest and preference dividends received.

27 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 R20 421 000 (2007: R17 320 000). 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 initial 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.

28 Post-retirement medical costs

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

29 Directors' interest and remuneration

29.1 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:

2008 and 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 (A)		
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 (2007: 333 333) shares at an average price of R24,60 per share and 429 000 (2007: 235 000) share appreciation rights at a price of R51,84 (2007: R39,75) per right.

The shareholdings above have not changed between 30 November 2008 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.

(A) At November 2008 100 000 of these shares are subject to a call option exercisable in October 2011.

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

Share incentive scheme

The directors have entered into the following deferred delivery agreements:

2008	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	133 333	24,60					133 333	17 Mar '04	16 Mar '14	
GE Gardiner	100 000	24,60					100 000	17 Mar '04	16 Mar '14	
PM Poole	100 000	24,60					100 000	17 Mar '04	16 Mar '14	
Total	333 333						333 333			
2007										
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

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.

29.2 Directors' interest in share incentive and share appreciation bonus schemes (continued)

Share appreciation bonus scheme

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

2008	Outstanding share units beginning of year	Strike price	Granted during the year	Outstanding share units end of year	Date granted	Number of tranches	Date benefit to be determined
SJ Connelly	175 000		100 000	275 000			
	175 000	39,75		175 000	06 Jul '06	3	Jul '09 to Jul '13
		71,45	100 000	100 000	15 Feb '08	3	Feb '11 to Feb '14
GE Gardiner	20 000		51 333	71 333			
	20 000	39,75		20 000	06 Jul '06	1	Jul '09 to Jul '11
		71,45	11 333	11 333	15 Feb '08	1	Feb '11 to Feb '14
		55,40	40 000	40 000	18 Nov '08	2	Jul '09 to Jul '12
PM Poole	40 000		42 667	82 667			
	40 000	39,75		40 000	06 Jul '06	2	Jul '09 to Jul '12
		71,45	22 667	22 667	15 Feb '08	2	Feb '11 to Feb '15
		55,40	20 000	20 000	18 Nov '08	1	Jul '10 to Jul '12
Total	235 000		194 000	429 000			
2007							
SJ Connelly	175 000	39,75		175 000	06 Jul '06	3	Jul '09 to Jul '13
GE Gardiner	20 000	39,75		20 000	06 Jul '06	1	Jul '09 to Jul '11
PM Poole	40 000	39,75		40 000	06 Jul '06	2	Jul '09 to Jul '12
Total	235 000			235 000			

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 year's 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%.

29.3 Directors' emoluments

R000	For services as director	Fixed remuneration	Retirement fund contributions	Other benefits	Performance-related remuneration	Share-based payments(1)	Total remuneration
2008							
Non-executive directors	582						**582**
PL Campbell	158						**158**
JB Gibbon	137						**137**
YKN Molefi	104						**104**
RT Vice	183						**183**
Executive directors		4 894	587	552	7 584	2 147	**15 764**
SJ Connelly		2 323	275	255	3 793	1 284	**7 930**
GE Gardiner		1 285	156	145	1 688	387	**3 661**
PM Poole		1 286	156	152	2 103	476	**4 173**
Total 2008	**582**	**4 894**	**587**	**552**	**7 584**	**2 147**	**16 346**
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**

(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.

30 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 65.

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.

R000	2008	2007
Compensation of key management personnel		
Short-term employee benefits	**26 758**	24 642
Share-based payments(1)	**4 623**	3 367
	31 381	28 009

(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 29.

Interest in contracts and transactions with key management personnel	2008	2007
Goods sold to key management at staff prices	**12**	15
Goods bought from companies controlled by key management	**493**	1 179
Goods sold to companies controlled by key management	**61**	

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 R780 600 (2007: R716 266). 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		Bearings and Power Transmission Products		Powered Products		Security Equipment	
R million	**2008**	2007	**2008**	2007	**2008**	2007	**2008**	2007	**2008**	2007
Income statement										
Turnover	**2 766**	2 227	**(1)**		**1 727**	1 273	**673**	589	**367**	365
- Ongoing operations	**2 521**	2 156	**(1)**		**1 506**	1 273	**673**	589	**343**	294
- Operations acquired in 2008	**221**				**221**					
- Operations discontinued in 2008	**24**	71							**24**	71
EBITDA	**442**	330	**(18)**	(23)	**262**	181	**147**	126	**51**	46
Depreciation less profit on disposal of property, plant and equipment	**12**	12			**8**	8	**2**	2	**2**	2
Amortisation of intangible assets	**3**				**3**					
Operating profit	**427**	318	**(18)**	(23)	**251**	173	**145**	124	**49**	44
- Ongoing operations	**402**	320	**(18)**	(23)	**220**	173	**145**	124	**55**	46
- Operations acquired in 2008	**31**				**31**					
- Operations discontinued in 2008	**(6)**	(2)							**(6)**	(2)
Cost to introduce BEE shareholders		(44)		(44)						
Net loss on closure of operation discontinued in 2008	**(2)**								**(2)**	
Profit before interest and dividends received	**425**	274	**(18)**	(67)	**251**	173	**145**	124	**47**	44
Balance sheet										
Property, plant and equipment	**92**	74			**66**	52	**18**	14	**8**	8
Goodwill	**131**	77			**118**	64			**13**	13
Intangible assets	**25**				**25**					
Deferred taxation – net	**(5)**	1	**1**		**(8)**	(1)	**2**	1		1
Inventories	**780**	544			**542**	342	**178**	145	**60**	57
Accounts receivable	**507**	399	**1**	1	**328**	239	**127**	98	**51**	61
Accounts payable	**(488)**	(435)	**(9)**	(10)	**(272)**	(217)	**(157)**	(156)	**(50)**	(52)
Taxation	**(33)**	(30)	**43**	9	**(41)**	(8)	**(26)**	(24)	**(9)**	(7)
Net operating assets	**1 009**	630	**36**		**758**	471	**142**	78	**73**	81
Additional information										
Average net operating assets	**923**	612	**9**	(14)	**696**	446	**138**	100	**80**	80
Capital expenditure	**25**	21			**15**	14	**7**	4	**3**	3
Operating profit margin (%)	**15,4**	14,3			**14,5**	13,6	**21,5**	21,1	**13,4**	12,1
Return on average NOA (%)	**46,2**	51,9			**36,1**	38,8	**105,3**	124,0	**61,1**	55,0
Number of employees	**2 378**	2 149	**22**	20	**1 791**	1 586	**369**	344	**196**	199

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

	Notes	2008 R000	2007 R000
Hudaco Industries Limited			
Balance sheet			
at 30 November 2008			
Assets			
Non-current assets			
Interest in subsidiary companies	31.1	**232 675**	273 549
Current assets		**386**	293
Accounts receivable		**368**	286
Bank balances		**18**	7
Total assets		**233 061**	273 842
Equity and liabilities			
Shareholders' equity		**229 682**	163 221
Current liabilities		**3 379**	110 621
Shareholders for special dividend			109 774
Accounts payable and taxation		**3 379**	847
Total equity and liabilities		**233 061**	273 842
Income statement			
for the year ended 30 November 2008			
Dividends received from subsidiaries		**174 636**	173 044
Interest received		**6**	762
Operating costs		**(1 392)**	(1 429)
Profit before taxation		**173 250**	172 377
Taxation – South African normal tax		**2 599**	392
Profit after taxation		**170 651**	171 985

Statement of changes in equity

R000	Share capital	Share premium	Special reserve account*	Retained income	Share-holders' equity
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
Attributable profit for the year				170 651	170 651
Issue of 169 336 shares	17	4 121			4 138
Dividends to shareholders				(100 178)	(100 178)
Dividends to subsidiary company				(8 150)	(8 150)
Balance at 30 November 2008	**3 343**	**34 238**	**332**	**191 769**	**229 682**

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

	2008 R000	2007 R000
Cash flow statement		
for the year ended 30 November 2008		
Cash generated from operating activities		
Dividends received	**174 636**	173 044
Operating costs paid	**(1 392)**	(1 429)
Decrease (increase) in working capital	**260**	(22)
Cash generated from operating activities	**173 504**	171 593
Finance revenue	**6**	762
Taxation paid	**(431)**	(4)
Cash flow from operations	**173 079**	172 351
Dividends	**(218 102)**	(67 101)
Net cash (applied) retained	**(45 023)**	105 250
Cash applied to investment activities		
Decrease (increase) in loans to subsidiary companies	**40 874**	(119 691)
Net cash applied	**(4 149)**	(14 441)
Cash flow from financing activities		
Increase in shareholder funding	**4 138**	14 441
Increase in bank balances	**11**	
Net financing raised	**4 149**	14 441

31 Notes to the company financial statements

31.1 Interest in subsidiary companies

	2008 R000	2007 R000
Shares at cost less amounts written off	**134 956**	134 956
Net loans (from) to subsidiaries	**97 719**	138 593
Loans to subsidiaries	**97 799**	138 760
Loans from subsidiaries	**(80)**	(167)
	232 675	273 549

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.

31.2 Auditors' remuneration

	2008 R000	2007 R000
Audit fees for the current year	**80**	62

31.3 Contingent liability

	2008 R000	2007 R000
Guarantee in respect of a potential break fee due by a subsidiary	**21 000**	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 R150 million at the year-end.

At 30 November 2008

R unless indicated otherwise	Issued share capital 2008	Group's effective interest 2008 %	2007 %	Interest of holding company Book value of shares 2008 R000	2007 R000	Loans owing by/(to) 2008 R000	2007 R000
Principal subsidiaries							
Hudaco Trading (Pty) Ltd	**2 000**	**85** (1)	85 (1)	**2**	2	**(80)**	(167)
Abes Technoseal*							
Ambro Sales*							
Ampco*							
Angus Hawken*							
Astore Africa*							
Bauer Geared Motors*							
Bearings International*							
Belting Supply Services*							
BEP Bestobell and Mather & Platt*							
Bosworth*							
Elvey Security Technologies*							
Ernest Lowe*							
Powermite*							
Rutherford*							
Varispeed*							
Hudaco Investment Company Ltd	**26 160**	**100**	100	**48 158**	48 158	**97 686**	138 647
Barbara Road Investments (Pty) Ltd	**100**	**100**	100				
DD Power Holdings (Pty) Ltd	**30 000**	**70** (2)	70 (2)				
DD Power (Pty) Ltd	**7 450 000**	**70**	70				
Quadrant Investments Ltd (Guernsey)	**$ 7 424**	**100**	100	**42 681**	42 681	**113**	113
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	**97 719**	138 593

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

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

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

The subsidiaries' aggregate income after taxation attributable to the holding company, for the year ended 30 November 2008, is R317,1 million (2007: R218,3 million) and losses of R6,2 million (R2007: R34,4 million).

*Denotes an operating division

SHAREHOLDER INFORMATION

At 30 November 2008

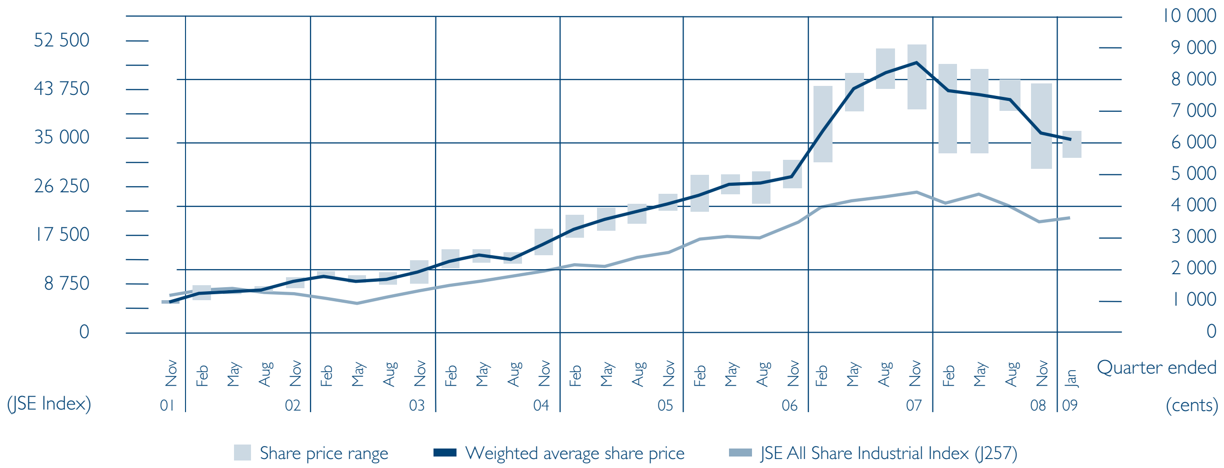
Shareholder analysis	Number of shares (000) 2008	% issued shares 2008	Number of share-holders
Portfolio size			
1 – 1 000	**799**	**2,6**	**1 856**
1 001 – 5 000	**1 913**	**6,2**	**761**
5 001 – 10 000	**1 276**	**4,1**	**169**
10 001 – 100 000	**5 658**	**18,3**	**179**
Over 100 000	**21 277**	**68,8**	**68**
Total(1)	**30 923**	**100**	**3 033**
Category			
Individuals	**4 787**	**15,5**	**2 375**
Financial institutions and pension funds	**18 129**	**58,6**	**215**
Banks and nominee companies	**4 078**	**13,2**	**90**
Other corporate bodies	**3 929**	**12,7**	**353**
Total(1)	**30 923**	**100**	**3 033**
Shareholder spread(1)			
Public	**26 805**	**86,7**	**3 001**
Non-public	**4 118**	**13,3**	**32**
Directors of the company and its subsidiaries(2)	**930**	**3,0**	**26**
Associates of the above	**87**	**0,3**	**5**
Shareholders with an interest of 10% or more in the company	**3 101**	**10,0**	**1**
Total(1)	**30 923**	**100**	**3 033**
Major shareholders - including assets managed on behalf of specific clients			
Old Mutual and OMIGSA	**6 393**	**21**	
Sanlam and SAM	**5 156**	**17**	
Polaris Capital	**3 641**	**12**	
Peregrine Capital	**2 806**	**9**	
Melville Douglas	**1 482**	**5**	
Stanlib Asset Management	**1 397**	**5**	
Public Investment Corporation (PIC)	**1 234**	**4**	
RMB Asset Management	**1 230**	**4**	
Investec Asset Management	**1 145**	**4**	
Total	**24 484**	**81**	

(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.

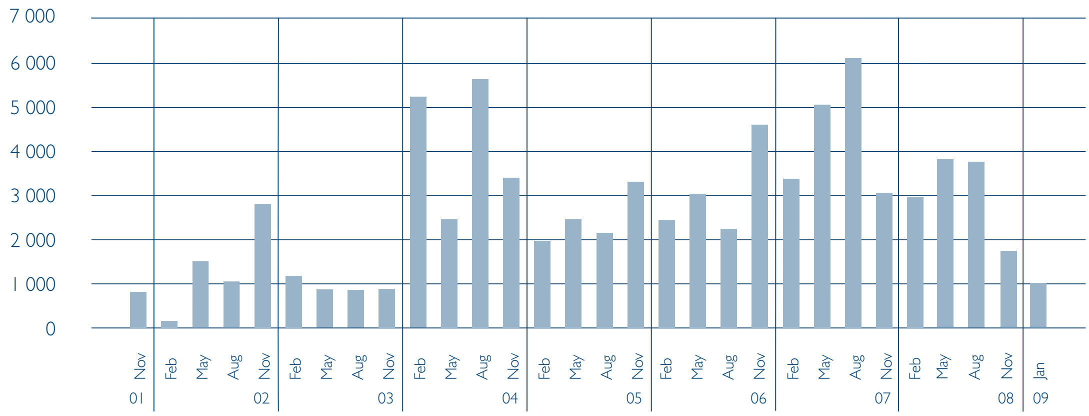
SHARE INFORMATION

For the year ended 30 November 2008

Share price history



Volume traded on JSE (000)



JSE STATISTICS

The following table sets out statistics of the JSE	**2008**	2007	2006	2005	2004	2003	2002
Market price (cents)	**5 600**	8 500	5 400	3 985	3 290	2 300	1 740
NAV per share (cents)*	**3 282**	2 623	2 429	2 056	1 720	1 563	1 390
Number of shares in issue (000)*	**30 923**	30 754	29 993	29 756	29 438	29 003	28 490
Market capitalisation (Rm)*	**1 870**	2 784	1 620	1 186	968	667	496
Price/earnings ratio (times)	**8,1**	14,3	12,4	10,2	8,6	6,4	6,6
All Share Industrial Index PE ratio (J257)	**11,4**	16,3	15,4	13,3	13,4	12,6	11,4
Dividend yield (%)	**5,8**	2.4	2,8	3,4	3,8	4,7	4,7
All Share Industrial Index dividend yield (J257) (%)	**3,6**	1,9	2,1	2,2	2,1	2,5	2,5
Annual trade in Hudaco shares							
Number of transactions recorded	**4 966**	4 967	3 081	2 919	3 076	992	425
Volume of shares traded (000)	**13 355**	17 682	12 362	9 923	16 744	3 793	5 572
% of issued shares traded*	**43**	54	41	33	57	13	18
Value of shares traded (R000)	**973 776**	1 389 609	584 747	369 207	412 704	68 566	83 765

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

NOTICE OF ANNUAL GENERAL MEETING

Hudaco Industries Limited

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

Notice is hereby given that the 24th 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, 26 March 2009, for the following purposes:

1 To receive and adopt the annual financial statements for the year ended 30 November 2008.

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 JB Gibbon
 2.2 GE Gardiner
 2.3 CWN Molope
 2.4 SG Morris
 A brief CV giving details of directors standing for re-election can be found on page 4.

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 approve the remuneration of non-executive directors for the year ending 30 November 2009 on the following basis:

Type of fee	Fee for the year ended 30 November 2008	**Proposed fee for the year ending 30 November 2009**
Group board		
Chairman of the board*	220 000	**300 000**
Board member	85 000	**110 000**
Audit and risk management committee		
Chairman of the committee	60 000	**90 000**
Committee member	40 000	**45 000**
Remuneration committee		
Committee member	25 000	**28 000**

*Includes membership of the remuneration committee.

Special business

Special resolution

5 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,

- 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 66
– directors' interests in securities – page 57
– share capital of the company – page 47

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 stated on page 4 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 25 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 page 4 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 (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

29 January 2009

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

FORM OF PROXY

Hudaco

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

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

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, 25 March 2009.

For use by members of Hudaco at the annual general meeting of Hudaco to be held on **Thursday, 26 March 2009** 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 JB Gibbon			
2.2 GE Gardiner			
2.3 CWN Molope			
2.4 SG Morris			
3 To ratify the appointment of directors appointed after 29 January 2009.			
4 To approve the remuneration of non-executive directors.			
5 Special resolution giving a general authority for the company to repurchase its own shares.			

Signed at ______________ on ______________ 2009

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 (Pty) Limited.

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

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

so as to be received by no later than 11: 00 on Wednesday, 25 March 2009 (or 24 hours before any adjournment of the annual general meeting, which date, if necessary, will be announced in the press).

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 (Pty) Limited
70 Marshall Street
Johannesburg 2001
PO Box 61051
Marshalltown 2107

Declaration by the group 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

29 January 2009

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@bearings.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 info@bearings.co.za
Mechanical Power Transmission	Abes Technoseal	Distributor of oil and hydraulic seals, clutch kits and automotive ignition leads	10 Wankel Street Jet Park	Tel 011 397 4070 Fax 011 397 4326 E-mail info@abes.co.za
	Ambro Sales	Distributor of special solid and hollow round steel.	Cnr Lamp and Snapper Roads Wadeville	Tel 011 824 4242 Fax 011 824 4864 E-mail sharona@ambro.co.za
	Angus Hawken	Manufacturer of oil seals	13 Bodirelo Mogwase	Tel 014 558 2756 Fax 014 558 2425
	Astore Africa	Distributor of specialised plastic pipe and fittings	9 Fountain Road Eastleigh, Edenvale	Tel 011 452 3354 Fax 011 452 3704 E-mail salesjhb@astore.co.za
	Belting Supply Services	Distributor of power transmission and conveyor belting products and industrial hose	15 Fortune Road City Deep	Tel 011 610 5600 Fax 011 610 5700 E-mail info@belting.co.za
	BEP 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 Road 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, stern drives, 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
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
Angus Milne Lynette Anderson	Chief executive Director		
Hannes du Plessis	General manager		
Ben Levitas Andrew Smith Timothy Claassen	Chief executive Financial manager Sales manager		
Piet Swanepoel Mark Knight Tom Harrison	Chief executive Financial director Director	Trevor Gardiner	Director
Andy Vermaak Jopie Oosthuizen	Chief executive Financial director		
Mark Tarboton Wendy Turner	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		
Mike Allnutt Gawie Beukman	Chief executive Financial manager		
Rolf Lung Erika van de Velde	General manager Financial manager		
Ossie Carstens Burtie Roberts Rowan Michelson	Chief executive Financial director Marketing director	Maurice Pringle	Sales director
Bob Cameron-Smith Les Trollip Bhoopendra Dulabh	Chief executive Financial director Director	Mick Spooner	Director: Marine
Jack Edery Bev Scott Dave Waywell	Chief executive Financial director Operations director	Zane Greeff	Technical 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

Quintessential Q1579

Hudaco

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