Hudaco

ANNUAL REPORT 2009

Hudaco

Contents

Profile

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

- Bearings and power transmission products
- Powered products
- Security equipment

Hudaco sources branded products, mainly on an exclusive basis, directly from leading international manufacturers and to a lesser extent from local manufacturers. Hudaco seeks out niche areas in markets where customers need, and are prepared to pay for, the value Hudaco adds to the products it distributes. The value added includes product specification, technical advice, application and installation training and troubleshooting, combined with ready availability at a fair price. A network of specialised branches and independent distributors throughout southern Africa serves the industrial replacement parts market and supplies original equipment to the security industry.

With the exception of Deutz Dieselpower, all Hudaco's businesses are 15% owned directly by BEE shareholders.

"Value-added distribution–our core competency"

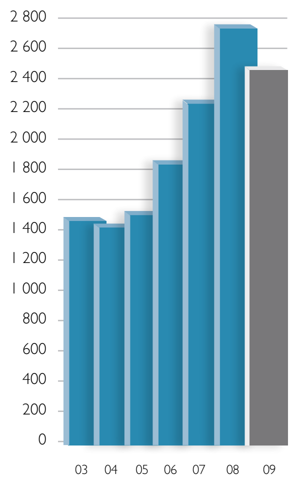
Executives

Graham Gardiner	Divisional chief executive - Bearings and power transmission products		
Graham Dunford	Chief executive - Power transmission		
Gilbert da Silva	Chief executive - Mechanical power transmission		
Brian Constancon	Chief executive - Electrical power transmission		
Tony Patten	Chief executive	Adrian Vorster	Transmission director
Danie Louw	Regional sales director	Robert Southey	Financial director
Ian Robertson	Bearings director	Horoun Adams	Director
Alan Ross	Logistics director	Gary Howell	Financial manager
David Allman	Chief executive	Danie Venter	Sales director
Chris de Kock	Financial director		
Jayne Kyte	Logistics director		
Lynette Anderson	Chief executive		
Angus Milne	Director		
Hannes du Plessis	General manager		
Ben Levitas	Chief executive		
Andrew Smith	Financial manager		
Jacques van Eck	National sales manager		
Piet Swanepoel	Chief executive	Andrew Vermaak	Director
Mark Knight	Financial director	Trevor Gardiner	Sales director
Tom Harrison	Director		
Mark Tarboton	Chief executive		
Wendy Turner	Financial manager		
Douglas Salmon	Chief executive		
Jopie Oosthuizen	Financial director		
Manny Vieira	Sales director		
Johan Herbst	General manager		
John Biller	General manager		
Rika Wessels	Financial manager		
Knocks Ngema	National sales manager		
Mike Allnutt	Chief executive		
Gawie Beukman	Financial director		
Andrew Mowat	Director		
Rolf Lung	Chief executive		
Erika van de Velde	Financial manager		
Ossie Carstens	Chief executive	Maurice Pringle	Sales director
Burtie Roberts	Financial director		
Rowan Michelson	Marketing director		
Bob Cameron-Smith	Chief executive	Mick Spooner	Director: Marine
Les Trollip	Financial director		
Bhoopendra Dulabh	Director		
Jack Edery	Chief executive	Zane Greeff	Technical director
Gary Lowe	Financial director		
Dave Waywell	Key Accounts director		
Stephen Connelly	Group chief executive	Andrew Wallis	Group treasurer
Clifford Amoils	Group financial director	Gary Walters	Acquisitions
Reana Wolmarans	Group secretary		
Cassie Lamprecht	Group accountant		

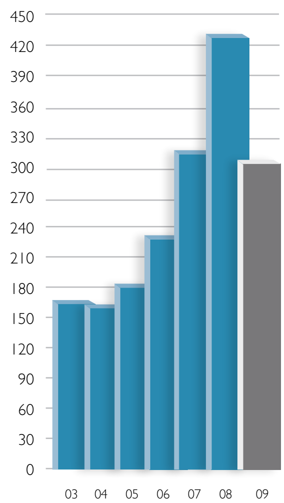
30 November 2009	2009	2008	% change
Turnover (Rm)	**2 420**	2 766	-12
Operating profit (Rm)	**307**	427	-28
Normalised headline earnings (Rm)*	**249**	307	-19
Attributable earnings (Rm)	**243**	307	-21
Normalised headline earnings per share (cents)	**801**	995	-19
Dividends per share (cents)	**350**	400	-13

* *For calculation of normalised headline earnings see note 10 on page 59.*

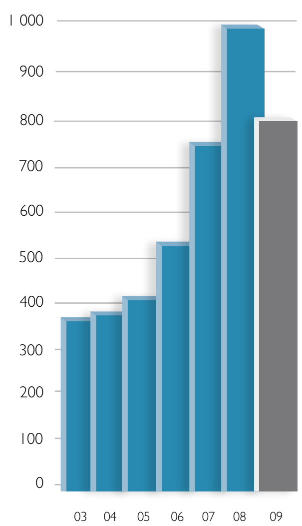
Turnover (Rm)



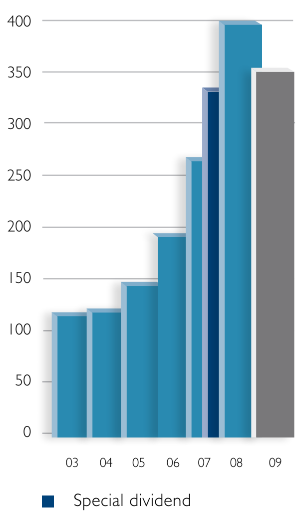
Operating profit (Rm)



Normalised headline earnings per share (cents)



Dividends per share (cents)



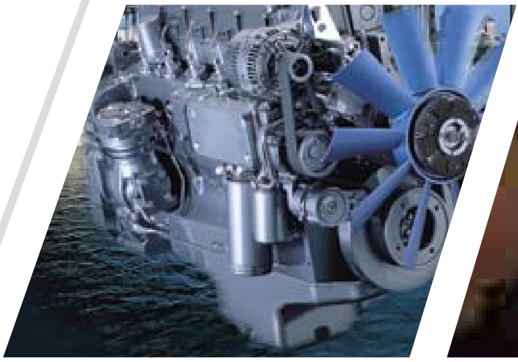
Group at a glance

Bearings and power transmission products

Principal activity

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

Powered products



Principal activity

The distribution of power tools, stern drives, outboard motors, survey equipment, nuclear gauges and rivets and the marketing and servicing of Deutz diesel engines and spares to the construction, mining, manufacturing, marine, agricultural and retail markets.

Security equipment

Principal activity

The distribution of intruder detection, access control, related CCTV equipment and fibre-optic equipment.

Group

Businesses
Abes Technoseal
Ambro Sales
Ampco
Angus Hawken
Astore Africa
Bauer Geared Motors
Bearings International
Belting Supply Services
Bosworth
Ernest Lowe
Powermite
Varispeed

Rm	2009	2008
Turnover	**1 593**	1 727
Operating profit	**201**	251
Average net operating assets	**768**	696
Number of employees	**1 717**	1 791

Businesses
Deutz Dieselpower
Rutherford

Rm	2009	2008
Turnover	**559**	673
Operating profit	**102**	145
Average net operating assets	**159**	138
Number of employees	**374**	369

Business
Elvey Security Technologies

Rm	2009	2008
Turnover	**269**	367
Operating profit	**41**	49
Average net operating assets	**70**	80
Number of employees	**196**	196

Rm	2009	2008
Turnover	**2 420**	2 766
Operating profit	**307**	427
Average net operating assets	**1 015**	923
Number of employees	**2 310**	2 378

Non-executive directors

Royden Vice (62)
BCom CA (SA)
Independent non-executive chairman of the board and the remuneration and nomination committee

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

Royden was CEO of Industrial and Special Products at the UK-based BOC group. He was also chairman of African Oxygen Limited (Afrox) from 1994 to 2001 and Afrox Healthcare.

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

John Gibbon (69)
BCom CA (SA)
Independent non-executive director and chairman of the audit and risk management committee

John is a non-executive director of Calgro M3 Holdings Limited, where he chairs the audit and risk management committee and is a member of the remuneration committee.

He qualified as a chartered accountant with PricewaterhouseCoopers in 1963 and retired as a senior partner in 2001.

He joined the board in 2001.

Nosipho Molope (45)
BSc(Med Sc), BCompt CA (SA)
Independent non-executive director and member of the audit and risk management committee

Nosipho also serves as non-executive director on the boards of MTN, Illovo, Nampak and Petro SA.

She previously held senior positions at Viamax, Zungu Investment Company and the Financial Services Board.

Nosipho joined the board in 2009.

Nene Molefi (44)
BSocSc
Independent non-executive director and member of the remuneration and nomination committee

Nene is managing director and sole owner of Mandate Molefi, human resource consultants and a shareholder in Hudaco Trading.

She 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.

Nene joined the board in 2002.

Stuart Morris (63)
BCom CA (SA)
Independent non-executive director and member of the audit and risk management committee and the remuneration and nomination committee

Stuart is a non-executive director of Group Five, Zurich Insurance (RSA), City Lodge and Mwana Africa plc, chairman of Sasol Pension Fund and Wits Donald Gordon Medical Centre and a council member of Wits University.

He served KPMG South Africa for over 30 years, ultimately becoming 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.

Stuart joined the board in 2009.

Executive directors

Stephen Connelly (58)
ACMA
Group chief executive

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

Graham Gardiner (63)
Divisional CEO Bearings and power transmission division and executive director

Graham was appointed to the position of CEO of the Bearings and power transmission division in 2001.

He joined Hudaco in 1987 when it purchased the listed Frencorp Limited, where he was the chief executive.

Graham became a board member in 1988.

Clifford Amoils (48)
BCom BAcc (cum laude) CA (SA)
Group financial director

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

He joined the board on 1 July 2009.

Graham Dunford (45)
Dip : Mechanical Engineering
CEO Power transmission division and alternate director to Graham Gardiner

Graham was appointed to his current position in January 2009.

He joined Hudaco in 2001 when it purchased Bauer Geared Motors where he was the managing director. He became CEO of the Electrical power transmission division in 2005.

He became an alternate director in January 2009.

Executive committee and mission statement

Executive committee

From left to right standing

Tony Patten (55)
CEO Bearings International
27 years' service

Graham Dunford (45)
CEO Power transmission
21 years' service

Clifford Amoils (48)
Group financial director
New appointment

Ossie Carstens (44)
CEO Deutz Dieselpower
1 year's service

Graham Gardiner (63)
Divisional CEO Bearings and power transmission
39 years' service

Service is with Hudaco and businesses acquired

From left to right sitting

Jack Edery (58)
CEO Elvey Security Technologies
13 years' service

Reana Wolmarans (43)
Group secretary
New appointment

Stephen Connelly (58)
Group chief executive
27 years' service

Bob Cameron-Smith (61)
CEO Rutherford
36 years' service

Gilbert da Silva (62)
CEO Mechanical power transmission
39 years' service

Mission statement

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

- We are committed to the transformation of **South Africa's society** and economy to redress inequities of the past.
- 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 quality products and ready availability to our **customers**.
- We establish enduring partnerships with our **suppliers** combining their leading world brands and our distribution strengths in southern Africa.
- We 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 fully conscious of our responsibilities for safety and the **environment**.

R million	Prepared under IFRS 2009	2008	2007	2006	Prepared under GAAP 2005	2004	2003
Group income statement							
Turnover	**2 420**	2 766	2 227	1 838	1 530	1 431	1 461
Operating profit	**307**	427	318	234	181	162	163
Net finance costs less dividends received	**28**	40	(5)	(7)	(4)	(6)	1
Profit before taxation	**279**	387	323	241	185	168	162
Taxation	**24**	57	83	76	59	54	52
Profit after taxation	**255**	330	240	165	126	114	110
Minority interest	**5**	23	13	6	5	5	5
Normalised earnings	**250**	307	227	159	121	109	105
Capital items	**7**		44	9	(1)	20	5
Attributable earnings	**243**	307	183	150	122	89	100
Shares in issue 000 (weighted average)	**31 023**	30 836	30 178	29 870	29 592	29 289	28 776
Earnings per share (cents)							
- normalised headline	**801**	995	750	533	409	371	365
- basic	**784**	995	606	502	413	303	347
Dividends per share (cents)	**350**	400	260	190	144	128	122
Special dividend per share (cents)			330				
Group balance sheet							
Property, plant and equipment	**91**	92	74	67	62	43	44
Goodwill	**117**	131	77	57	64	43	56
Intangible assets	**18**	25					
Deferred taxation	**11**	(5)	1	1	2	16	15
Inventories	**597**	780	544	452	375	285	320
Accounts receivable	**356**	507	399	355	279	245	239
Accounts payable	**(326)**	(488)	(435)	(382)	(296)	(268)	(248)
Taxation	**(10)**	(33)	(30)	(24)	(13)	(25)	(37)
Net operating assets	**854**	1 009	630	526	473	339	389
Investment	**2 181**	2 181	2 181				
Net cash	**335**	69	317	238	187	207	114
Employment of capital	**3 370**	3 259	3 128	764	660	546	503
Shareholders' equity	**1 150**	1 015	807	728	612	508	458
Minority interest	**34**	40	29	22	24	26	24
Total shareholders' funds	**1 184**	1 055	836	750	636	534	482
Shareholders for special dividend			101				
Subordinated debenture	**2 181**	2 181	2 181				
Amounts due to vendors on acquisitions	**5**	23	10	14	24	12	21
Total capital employed	**3 370**	3 259	3 128	764	660	546	503
Group cash flow							
Cash generated from trading	**333**	450	334	248	195	175	177
Decrease (increase) in working capital	**166**	(235)	(71)	(62)	(62)	36	(2)
Cash generated from operations	**499**	215	263	186	133	211	175
Finance costs	**(235)**	(249)	(81)				(1)
Taxation paid	**(63)**	(56)	(81)	(65)	(63)	(63)	(56)
Net cash from operating activities	**201**	(90)	101	121	70	148	118
Investment in new operations	**(7)**	(140)	(35)	(11)	(47)	(11)	(17)
Investment in property plant and equipment	**(17)**	(20)	(17)	(16)	(9)	(14)	(12)
Investment in preference shares			(2 181)				
Discontinuation of business	**7**						
Dividends and interest received	**203**	212	83	8	5	6	
Net cash from investing activities	**186**	52	(2 150)	(19)	(51)	(19)	(29)
Proceeds from issue of shares	**8**	4	14	3	3	3	2
Subordinated debenture issued			2 181				
Dividends paid	**(129)**	(214)	(67)	(54)	(42)	(39)	(33)
Net cash from financing activities	**(121)**	(210)	2 128	(51)	(39)	(36)	(31)
Net increase (decrease) in cash and cash equivalents	**266**	(248)	79	51	(20)	93	58

History

1891

Hudaco Industries derives its name from and traces its existence to Hubert Davies and Company, whose history and development has been an integral part of the economic development of southern Africa for almost 120 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. In the early years 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 he established the business 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 industries, 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, 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. In 1977 it became a wholly owned subsidiary and delisted from the stock exchange. During the 1970's 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 in order 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 – 2005

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 up 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 and 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 Deutz Dieselpower, to BEE shareholders.

2009

The group employs over 2 300 people, its market capitalisation is over R2 billion and its shareholders include many of the blue chip players in the retirement investment industry.

Royden Vice

Business overview

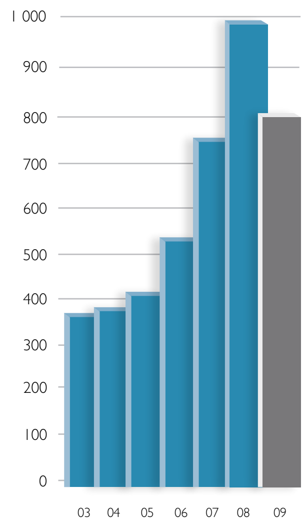
In stark contrast to the very pleasing financial performance produced in 2008, this year turned out to be one of the most difficult for the group since its listing in 1985. By the end of 2008 it had become clear that the South African economy was going to follow the world into deep recession in 2009. Only towards the end of this financial year have there been signs that the downturn may be coming to an end.

The group's response to the unfolding recession became more precise as its depth and extent became clearer. Given the group's reliance on GDP spending (as opposed to investment spending) we knew that sales levels would hold up to some extent - how much we weren't sure. We also knew from past experience that gross margins were unlikely to be affected and that it would take us a year at most to get inventory levels back into balance. We decided that retrenchments, particularly of skilled people, would only be undertaken as a last resort as we knew this could damage our business, make recovery harder and possibly result in lost market share.

The group made its first response to the impending recession in late 2008 by taking steps to cut variable and discretionary spending, deferring decisions on expansion and putting acquisitions on hold. In early 2009, as sales started to fall, an inventory reduction programme was implemented and expenses were tightened further. These measures helped the group weather the worst of the storm. The strength of the Rand this year exacerbated the sales decline as prices were reduced, but it did help to bring inventory levels back in line faster as stock was replaced at stronger rates of exchange.

At the end of 2009 the group is in good shape. Although earnings are down, all businesses in the group are trading profitably and will emerge leaner from the recession and ready to grow once more. Inventories are largely back in line, the balance sheet reflects substantial cash resources (R335 million) and importantly, the group's skills base is still intact.

Normalised headline earnings per share (cents)



2009 results

Sales of R2,4 billion are 12% down on last year whilst operating profit is down 28% to R307 million. Normalised headline earnings per share decreased 19% to 801 cents. As the group has a strong cash position, dividend cover has been reduced slightly to 2.3 times from 2.5 times, which means the dividend payout this year has decreased by 13%. Dividends declared in respect of the 2009 financial year amount to 350 cents per share (last year: 400 cents).

Volume sales of bearings, power transmission products and diesel engines were well down on last year's levels, as mining and manufacturing customers acted to cut production in response to reduced demand and lower commodity prices. Infrastructure spending, particularly road and stadium building, continued but the group's exposure to this sector of the economy was not sufficient to outweigh the decline in demand from mining and manufacturing. Interest rate increases in 2007 and 2008 had already started to dampen consumer spending on housing and building related activities and the recession only accelerated the process. This resulted in sales of power tools and security equipment falling sharply this year.

The balance sheet is healthy. The group has R335 million cash on hand at year end (last year: net R69 million). Inventories have been managed down 23% to R597 million. The return on net operating assets (RONA) in 2009 is 30%, well down on the 46% of last year and at the lower end of our internal target range but still well above our pre-tax cost of capital which is approximately 18%.

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

Business model

Hudaco is engaged in the business of importing and distributing branded industrial consumable products in southern Africa. Core demand for our product range is relatively stable, being influenced more by GDP activity than GDFI. Although some businesses 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.

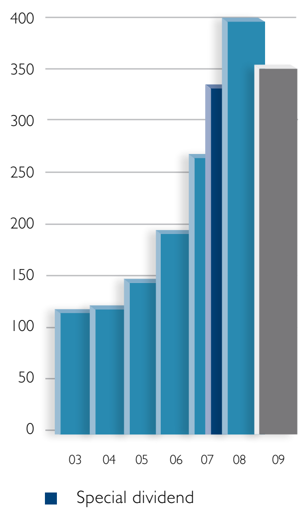
Distribution rights have been secured from leading international manufacturers mainly on an exclusive basis. We look for manufacturers with a global brand presence and a commitment to maintaining market leadership, particularly through technical innovation. We seek products which require a "value add" beyond just product availability, such as technical advice or training on installation and usage. Experience has taught us that markets or customers who 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, the products we distribute are not manufactured locally nor are they likely to be in the foreseeable future. The lack of a well developed manufacturing industry, capable of competing on a world stage without some form of local protection and economies of scale, inhibit this.

Hudaco's businesses do not normally require significant investment in property or plant and equipment to operate. The group balance sheet consists mainly of working capital, with inventories being the largest component as product availability is a key competitive advantage. This year, however, we took a decision that in special cases where security of tenure is important, we would be prepared to acquire key property locations. Such locations would typically be a main warehousing facility and the amount envisaged for this purpose is R100 million for two locations.

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

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

Dividends per share (cents)



"...the group's response to the unfolding recession became more precise as its depth and extent became clearer..."

the inflation differential – this year the Rand strengthened, resulting in price decreases whilst we had to contend with inflation of about 8% on our overheads.

Management of our foreign currency exposure is based on the principle of avoiding speculation. All foreign currency liabilities are covered forward (hedged) at the time ownership of the asset passes to Hudaco. Between 20% and 30% of orders on suppliers are also hedged to guard against spikes in exchange rates.

Acquisition strategy

The group is committed to growing through acquisition. However, during the market turmoil of the past 18 months we put acquisitions on hold because it made no sense to buy businesses whose earnings could plunge as the recession bit. Even if we could have bought such assets cheaply (and prices did not fall to the extent we thought they should) we did not feel confident that we could manage new businesses successfully through a recession. Now, as the end of the recession is in sight, more effort will be devoted to this objective.

Where we already represent a major world brand, acquiring distribution rights for a competing brand is not feasible. Our only option, therefore, is to acquire businesses distributing product lines not already in our portfolio. Major world manufacturers are invariably already represented locally and changing distributors usually only takes place when the local owners of the distribution rights wish to disinvest. Consequently, opportunities to acquire distribution rights present themselves only rarely, which means that our acquisition strategy tends to be opportunistic in nature. Nevertheless, we do have a permanent wish list.

Accounting standard IFRS 3, requiring intangibles in an acquisition to be fair valued and amortised, means that acquisitions often don't improve earnings in the short term. Investing in our own businesses represents the least risky growth route and a high priority is placed on ensuring that every internal growth opportunity is exploited.

Black economic empowerment

Hudaco recognises the need for transformation within South Africa's economy and society to redress inequities of the past and supports the view that business can, and should play a leading role in this regard. We believe that the seven pillars of the DTI's Codes of Good Practice correctly identify the most important areas requiring effort.

The group has been working with these codes for some years now. As we (and business in general) have become more familiar with them, interpretation and information gathering has become easier and progress has accelerated. Our objective has been to achieve a high score whilst simultaneously maintaining the service that we provide to our customers and the high returns we give our shareholders. In pursuit of this objective, a BEE transaction concluded in 2007 qualified the group's main trading company, Hudaco Trading (Pty) Limited, for the maximum number of points available in the ownership category of the DTI scorecard.

Except for our diesel engine business where we and our German supplier/partner have set more modest objectives, we asked our businesses to aim for level 4 (65 points) on the scorecard and all have achieved this status or better in 2009.

Unfortunately, not all our customers recognise the DTI Codes of Good Practice. Industry charters (particularly the mining charter) and some parastatals have developed their own unique requirements. These differing requirements are frustrating as our businesses can find they have excellent BEE credentials at one customer and none at all at another.

During this year Hudaco commenced the development of a broader transformation strategy for the group instead of focussing only on the DTI Codes of Good Practice. In this context the group wishes to speed up the transformation of the racial and gender composition of Hudaco's senior management - the top 50 to 60 people.

Appreciation

On behalf of the board I extend thanks to Peter Poole, who served as financial director to the group from 1987 until his retirement this year. Peter made a considerable contribution to the culture of the group and to the establishment of its high reporting standards. I welcome Peter's successor Clifford Amoils to the group.

I thank my non-executive colleagues on the board and its sub-committees for the contributions they make and their hard work this year. I also thank the executive and senior management of the group for their achievements in this difficult year. Furthermore, I take this opportunity to thank all employees for their efforts and our suppliers and customers for their ongoing support.

"...an expected resumption of economic growth in the second half of 2010 makes us optimistic..."

Prospects

The recession is not yet over. Although some economic indicators are showing an upturn, many others reflect only a slowdown in the rate of decline. In our businesses, volume demand declined steadily throughout the year and there were no indications that it had turned upwards by year end. It could take until mid 2010 before the recession in South African is over and economic growth resumes across a broad front.

It is difficult to tell how strong the growth will be. There will be restocking throughout the economy, which will give early impetus to growth and government infrastructure investment will gather pace, particularly power station building. Although commodity prices have turned upwards, some quite strongly, Rand strength removes much of the benefit for our mining industry. Renewed investment in mining projects and manufacturing capacity will be slow - it is natural to be wary of another bubble in demand and prices. As a result, we expect the recovery in the South African economy to also be slow until meaningful job creation gets underway. Consequently, consumer spending, to which we are indirectly exposed, could be weak for some time.

We expect trading in the first half of the year to continue to be difficult. However, an expected resumption of economic growth in the second half of 2010 makes us optimistic that the group will post an earnings increase for the full year.

RT Vice
Chairman

28 January 2010

Stephen Connelly

Business model and management philosophy

The Hudaco group sources from more than 1 500 suppliers located in all parts of the industrialised world. It supplies 20 000 customers through over 100 physical locations, mainly in South and southern Africa, and carries 250 000 line items in stock. Its main business is the supply of replacement parts to industrial customers. 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 balance sheet asset. A key competitive advantage is an ability to offer availability on demand.

A typical sale is a relatively low value transaction. Having the item in stock is a must, but value can be added to the sale in a number of ways, including technical application advice and training, preventive maintenance inspections and management of the customer's 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 customers' productivity levels.

Given these characteristics, Hudaco has developed a management style that has proven successful over many years. Decentralising management by putting decision-making responsibility into the hands of managers at all levels of the organisation is a key Hudaco philosophy. Delegating authority and responsibility empowers employees and allows them to respond quickly to customers' requirements. It instils self-discipline and encourages 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 experience and manages investor relations. It deliberately manages only a few centralised services. It also provides cohesion and a sense of commonality to the whole.

2009 results

A detailed explanation of Hudaco's financial objectives and a review of performance against those objectives is contained in the financial review, on page 27.

Back in October 2008, when it became clear to us that South Africa was going to follow the world into recession, a number of operational measures were put in place to prepare and protect the group. These measures were refined during 2009 as the extent of the recession became clearer:

- A moratorium on acquisitions
- Deferment of all but essential capital expenditure
- A hiring freeze
- Cutting discretionary and non-essential expenditure (eg. travel and marketing)
- A stock reduction programme
- A tightening of debt collection procedures

This enabled Hudaco to weather the worst of the recession and allowed it to emerge in good shape. The results of these measures are also evident in these 2009 financial results; for example 2009 operating expenses are down 2% and closing stock is down R183 million on 2008.

Sales of R2,4 billion in 2009 were down 12% on 2008, with all businesses in the group experiencing a fall in both Rand and volume sales this year. The two sectors of the South African economy most affected by the world recession were mining and manufacturing, which together account for about half of Hudaco's sales.

Sales in the Bearings and power transmission division were down 8%, whilst in the Powered products division they declined by 17%. In the Security equipment division sales from the ongoing operation were down 22%. Sudden Rand weakness in the last quarter of 2008 resulted in general price increases of our imported product range, which probably accelerated buying before the increases came into effect. This had the effect of stimulating sales in the last months of 2008 and masked the start of the downturn. For Hudaco, therefore, the recession only became evident at the beginning of 2009. Daily sales volumes were noticeably down when we returned from the Christmas break in January 2009 and the decline accelerated as the year progressed. There were signs towards year-end that sales had stabilised somewhat but there were no signs of an upturn. The Rand strengthened steadily throughout the first half of 2009 resulting in prices being decreased across our product range as new, cheaper stock started arriving. This added to pressure on our sales line, particularly in the second half of 2009.

The group gross profit margin at 39,3% was up 0,2% on last year, which we regard as a fine achievement given the pressure on both volume and Rand sales and the (misplaced) temptation to cut prices to maintain sales levels. Operating expenses were down on 2008 but as a percentage of sales they increased from 23,7% to 26,6% - understandable given the decline in sales. Group operating profit fell by 28% or R120 million to R307 million with an operating margin to sales of 12,7% (last year: 15,4%).

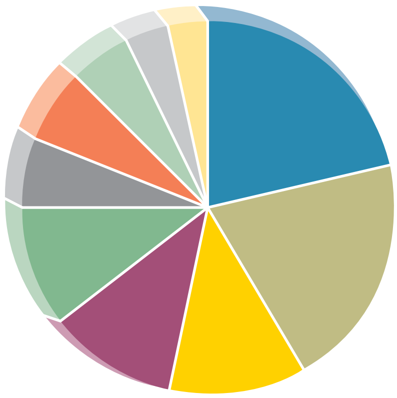
"A high quality branded product offering ensures repeat business, allowing us to develop lasting relationships with customers and enabling us to utilise our own and our suppliers' skills to improve customers' productivity levels."

Net interest paid was R230 million and preference dividend income was R202 million. The tax rate decreased from 14% to 9% mainly due to the weighting of the tax free dividends received on the preferences shares acquired as part of the BEE motivated restructure of the group in August 2007. Headline and basic earnings per share are down 17% and 21% respectively on last year. Normalised headline earnings per share (which excludes capital items) are 801 cents, down 19% on the 995 cents of last year. The group's dividend policy is to pay approximately 40% of normalised earnings annually. In view of the strong cash generation this year, the board declared a final dividend of 235 cents per share, which brings the total dividends declared in respect of the 2009 financial year to 350 cents, 44% of normalised earnings.

The balance sheet is healthy. Working capital (inventories, accounts receivable and accounts payable) at R627 million is R172 million or 22% down on 2008 levels. The considerable decrease in inventories in 2009 of R183 million or 23% brings stockholding almost back into line with current trading levels. The group has R335 million cash on hand at year end (last year: net R69 million). Cash flow per share is 1 214 cents compared with 232 cents the previous year. Net asset value per share is 3 681 cents.

The return on net operating assets in 2009 was 30%, well down on last year's 46%, but still above our pre-tax cost of capital which is about 18% (assuming conservative balance sheet gearing). Notwithstanding the tough year, the return is still within our internal target range of 30% plus, albeit at its lower end.

SALES BY MARKET SECTOR



	2009 %	2008 %
Mining	**22**	21
Manufacturing	**21**	22
Wholesale and retail	**12**	14
Security	**10**	12
Automotive	**10**	8
Exports	**6**	7
Construction	**6**	5
Agriculture	**5**	4
Public sector	**4**	3
Other	**4**	4

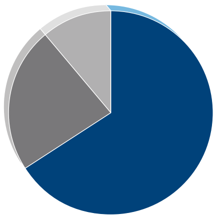
Bearings and power transmission products division

Graham Gardiner | Divisional CEO Bearings and power transmission Graham Dunford | CEO Power transmission
Gilbert da Silva (seated) | CEO Mechanical power transmission Tony Patten | CEO Bearings International

Principal activity

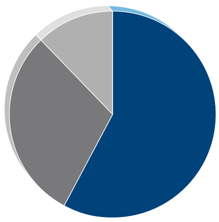
The distribution of leading brands of anti-friction bearings, geared motors, belting, chain, hydraulics, pneumatics, seals, variable speed drives, clutches, special solid and hollow round steel, specialised thermoplastic pipes and fittings, electrical cabling, plugs and related products to the manufacturing,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

SALES



Contribution to group sales **66%**

OPERATING PROFIT



Contribution to group operating profit **58%**

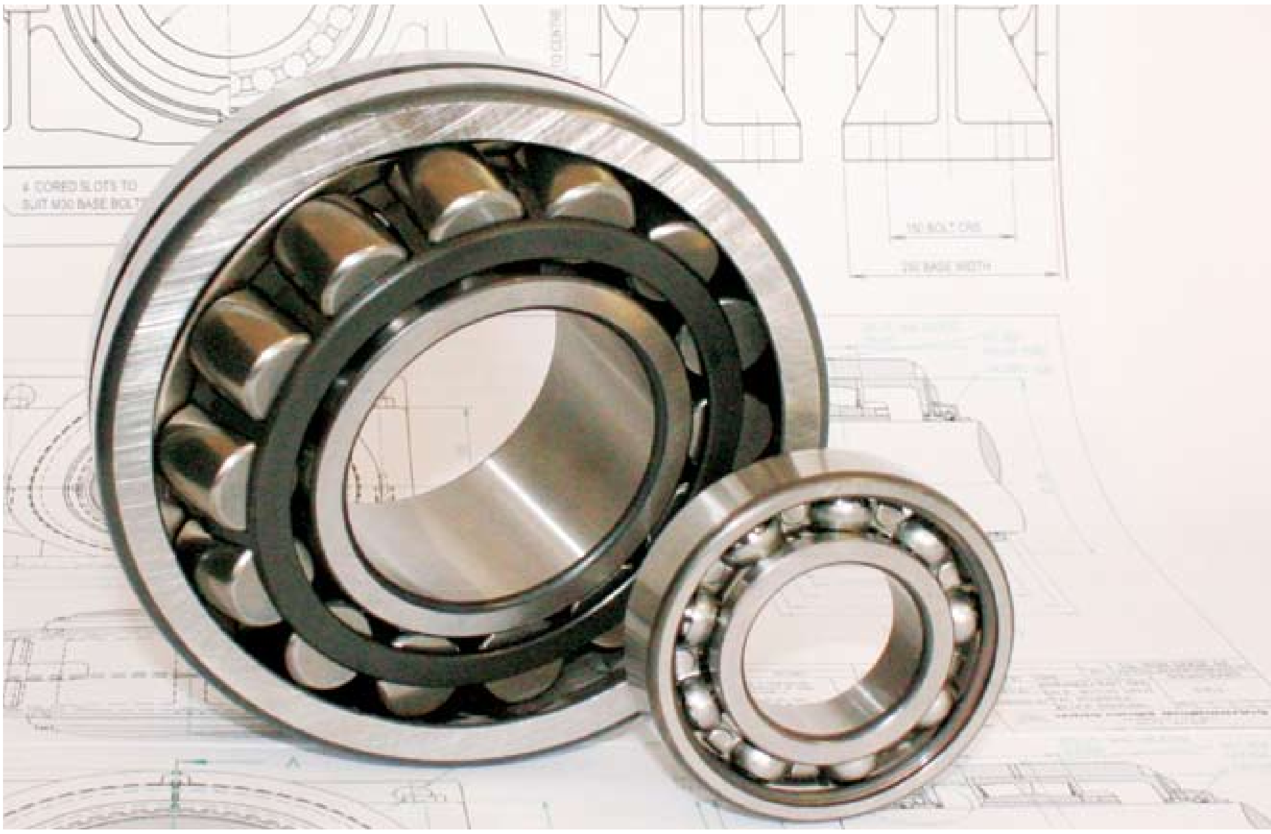
	2009	2008
Sales (Rm)	**1 593**	1 727
Operating profit (Rm)	**201**	251
Average NOA (Rm)	**768**	696
Number of employees	**1 717**	1 791

Principal markets - 2009	**%**
Manufacturing	30
Mining	23
Automotive	14
Wholesale and retail	10
Total	77

Principal businesses
Bearings International

Mechanical power transmission
Abes Technoseal
Ambro Sales
Angus Hawken
Astore Africa
Belting Supply Services
Bosworth
Ernest Lowe

Electrical power transmission
Ampco
Bauer Geared Motors
Powermite
Varispeed



Division overview

The division is a leading South African distributor of branded bearings and power transmission products. The replacement and repair market is a particular focus, with customers in the South African mining and manufacturing sectors accounting for more than half of total activity.

Our flagship industrial distribution business, Bearings International, has a comprehensive distribution network of more than 50 owned branches covering southern Africa. It distributes a wide range of bearings and transmission products. Its principal bearing brand is FAG.

The mechanical power transmission businesses distribute a complete range of imported industrial and automotive seals, transmission and conveyor chains, belting, couplings and pulleys, automotive clutches, thermoplastic valves and piping, pneumatic and hydraulic equipment and round steel bar.

The electrical power transmission businesses distribute a comprehensive range of imported geared motors, electric motors, variable speed drives, soft starters, specialised flexible electrical cable and cable reeling systems and controls. Ampco manufactures a range of specialised plugs and sockets.

Products are sourced from reputable and high quality manufacturers in all parts of the world, with Chinese and Indian manufacturers steadily increasing as a source of supply. Customers purchasing from Bearings International's extensive branch network rely on them to use the services of our independently staffed and stocked mechanical and electrical transmission businesses when more specialised technical advice or access to special or modified stock items is required.

Sales are principally related to GDP activity but project or GDFI business is important for creating a base for future replacement part sales. In good years, it adds the cream to our sales line.

The division posted very satisfactory results this year considering the recession and the strong currency. Rand sales were down 8% to R1 593 million, whilst operating profit declined 20% to R201 million. General day-to-day trading activity to mines and manufacturers was weak throughout the year as customers cut production and costs in the face of declining demand. Project business all but dried up as commodity prices plunged and mines and manufacturers reassessed project timelines. There was considerable evidence of customers, particularly in the mining industry, stripping idle equipment for spare parts. This put additional pressure on sales. Demand from customers exposed to the local consumer market, for example the automotive aftermarket, was also very weak this year. Pressure was also exerted by suppliers to increase purchases as the recession bit in other parts of the world. The steadily strengthening Rand in the first half of 2009 reversed the double digit price increases that arose from its sudden weakening at the end of 2008. The division's return on net operating assets (RONA) was 26%.

Bearings International

Hudaco's largest individual business, with over 50 branches countrywide, faced a tough year as demand fell. This was fuelled by falling prices in the second half in response to a stronger currency and increasing competition for dwindling demand. Sales of transmission products increased in the year but bearing sales fell quite sharply. Under these circumstances the business did well to maintain profits in 2009.

In 2009 Bearings International achieved DTI BBBEE Scorecard level 3 status and, having been classified as a "Value Adding Enterprise", has achieved 137,5% BEE recognition. Bearings International continues to tailor its skills development spend to its transformation agenda and invests heavily in critical employee skills training. Specialised training is also offered to customers on the correct handling, fitment, maintenance and replacement of bearings and mechanical drive components.

Its SHEQ (Safety, Health, Environment and Quality) Management System is underpinned by ISO9001 - 2008, OHSAS18001 - 2007, ISO14001 - 2004 and ISO26000.

Bearings International plans to commence construction of a new integrated head office and distribution centre alongside OR Tambo International airport in early 2010.

Mechanical power transmission

Abes Technoseal, Ambro Sales, Angus Hawken, Astore Africa, Belting Supply Services, Bosworth and Ernest Lowe are Hudaco's specialised mechanical power transmission businesses.

Bosworth, a manufacturer of conveyor belt drive pulleys for the mining industry, produced another excellent performance in 2009 and ended the year with a full order book, much of it for export.

Abes Technoseal, our automotive aftermarket and industrial sealing business, performed well in 2009 considering the difficult trading circumstances. Importantly, the business laid the groundwork, in terms of consolidation of agencies and customers, to achieve above average growth in earnings in the years ahead.

Belting Supply Services and Ernest Lowe, our belting and pneumatic/hydraulic product specialists, experienced tough times in 2009 as the recession bit. Margins came under pressure as both businesses attempted to maintain sales by cutting prices. Nevertheless, costs were well contained, and profitability was reasonable under the circumstances.

Ambro Sales, a distributor of special solid and hollow round steel bar, had produced excellent results in 2008 thanks to extreme price increases from steel producers worldwide being passed on to customers. 2009 saw the bubble burst and prices reverse, leading to industry profits collapsing. Due to the specialised nature of Ambro Sales' business, it was not as badly affected as general steel suppliers but nevertheless profits decreased 75%.

Astore Africa, an importer and distributor of specialised thermoplastic valves and piping to South Africa's mining and manufacturing sectors, was under sales pressure for the whole year. A focus on containing overheads and reducing inventories paid dividends and enabled the business to post slightly higher profits in 2009.

Electrical power transmission

Ampco, Bauer Geared Motors, Powermite and Varispeed are Hudaco's specialised distributors of electrical power transmission products including, in the case of Bauer, geared and electric motors and solutions and in the case of Varispeed, products which control, monitor and regulate the speed of standard AC motors. These products can make a significant contribution to customers' energy savings, which are becoming more sought after as electricity costs escalate and power outages threaten. These concerns resulted in a product first for Varispeed this year with the sale of 11kV soft starters to the steel industry.

All four businesses in this sub-division were adversely affected by the recession. Sales were under pressure all year as projects were postponed or cancelled and customers did their best to contain costs by cancelling or postponing repairs. Profits fell by a third but this was off a very high achievement in 2008. The fall in the copper price from a high of $7 000 to a low of around $3 000 in the year was a significant contributor to the sales decline in Powermite, as a significant portion of its business is directly or indirectly linked to the price of copper. However, because of the business' strong technical offering and the specialised nature of its cables, it was less adversely affected than other cable suppliers.

Prospects

The division's reliance on GDP spending shielded it to a great extent from the effects of cancellations and postponement of investments in South African mines after the collapse in commodity prices in late 2008. Requests for quotes for project business picked up towards the end of 2009, which indicates that mines, in particular, are beginning to respond to higher commodity prices and are considering expanding production. Prospects for the division are good over the medium term if this investment resumes and as electrical infrastructure spending gets set to follow the building of new power station capacity. The division is budgeting for only a modest increase in profits in 2010.

Principal brands

Precision bearings from Germany. 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 distributor since 1995

Plugs and sockets from Germany. Distributor since 1974

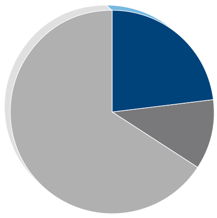
Electrical feeder systems from Europe. Distributor since 1970

Bob Cameron-Smith | CEO Rutherford Ossie Carstens | CEO Deutz Dieselpower

Principal activity

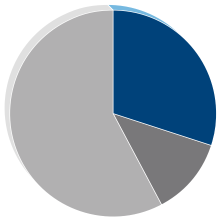
The distribution of power tools, stern drives, outboard motors, survey equipment, nuclear gauges and rivets and the marketing and servicing of Deutz diesel engines and spares to the construction, mining, manufacturing, marine, agricultural and retail markets.

SALES



Contribution to group sales 23%

OPERATING PROFIT



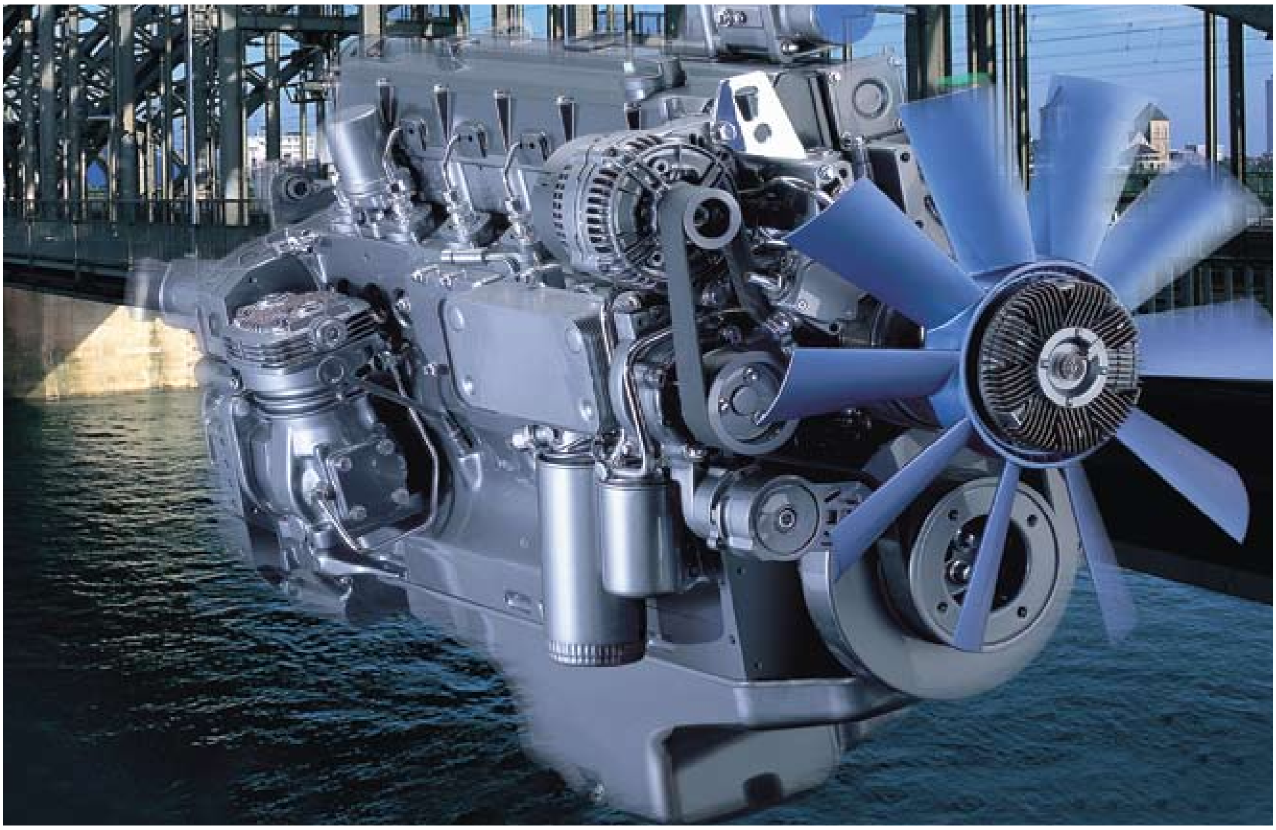
Contribution to group operating profit 30%

	2009	2008
Sales (Rm)	**559**	673
Operating profit (Rm)	**102**	145
Average NOA (Rm)	**159**	138
Number of employees	**374**	369

Principal markets - 2009	**%**
Mining	32
General trade and leisure	24
Construction	15
Exports	11
Manufacturing	11
Total	93

Principal businesses

Deutz Dieselpower
Rutherford



DEUTZ DIESELPOWER Rutherford

Division overview

Demand for diesel engines and spares weakened progressively as the year unfolded. Mines, in particular, scrambled to cut production and costs as commodity prices collapsed. Demand for industrial use power tools declined in 2009 and the market for outboard motors remained weak. Under such tough circumstances, the results produced by this division this year were pleasing. Although sales decreased 17% and operating profit decreased 30%, the operating margin remained at a very acceptable 18% (last year: 22%).

Deutz Dieselpower

Deutz Dieselpower (DDP), in which Hudaco's interest is 70%, distributes Deutz diesel engines and spares primarily to the off-road and industrial markets. Frequently, machines like air compressors, underground transporters and ore haulers are imported by sellers of capital equipment already fitted with Deutz diesel engines. The importer or the customer (frequently a mining company) then relies on DDP to provide the aftermarket service for 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 engine 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 the other 30% of the business.

DDP has distributed Deutz diesel engines and provided aftermarket service in southern Africa for four decades so there is a large installed base of engines in the region to support sales of spare parts. Deutz AG has been at the forefront of world diesel engine technology for more than 140 years. Deutz has 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 that will be introduced from 2011. This has been achieved through the use of the aforementioned engine management systems. DDP has also developed and had certified four and six cylinder liquid-cooled engines for flameproof applications in coal mining.

Service support forms the backbone of DDP's strategy to maximize value to the customer. This year DDP has commissioned another repair workshop that complies with the high international standards set by Deutz AG. This workshop is the latest of three strategically placed workshops (Johannesburg, Cape Town and Welkom) established as part of an effort to bolster support and make it convenient for customers to witness test runs or repair progress.

It has been a very tough year for DDP with turnover and profits down sharply compared to 2008, which was a bumper (and perhaps a bubble) year. However, the result this year compares well with 2007.

Rutherford

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

In 2009 the market for industrial power tools declined by about 30%. Volume sales of Makita tools declined by a lesser, but nevertheless still significant, amount. There was a clear shift to cheaper, less durable power tools by professional users seeking to contain costs, which served to the benefit of

the Maktec range resulting in it recording a lower decline in volume sales. The Makita cordless range with lithium iron battery technology, an acknowledged world market leader, performed well again, increasing volume sales against the overall trend.

Outboard motor volume sales declined again in 2009. High interest rates and the 2007 National Credit Act governing the granting of credit was already depressing demand for boats and the motors which power them. This year the introduction of licences for inland waters and the cost of obtaining a Certificate of Compliance (COC) for water craft has resulted in a glut of boats in the second hand market, further depressing sales of new boats and motors.

Sales of Topcon underground survey equipment collapsed this year as mines cancelled capital expenditure. Sales of Troxler nuclear gauges used in civil engineering applications held up well, benefiting from ongoing infrastructure spending, particularly road building. This product remains the industry standard.

Rutherford's sales declined slightly but profits were down 30%. The return on net operating assets was still well above the business' cost of capital.

Prospects

Prospects for this division in the 2010 financial year are difficult to assess. Commodity prices have recovered substantial ground and there are signs that mines may start to expand production in 2010. This should translate into increased demand for diesel engines and spare parts from the second half of 2010 onward. The power generation market did not fulfil demand expectations as the recession has allowed Eskom to meet the current lower demand for electricity. As the economic recovery gets underway, electricity supply constraints could again arise, in which case demand for generators will increase. Pressure on gold and platinum mines to improve efficiencies and safety facilitates more mechanised mining, which will benefit DDP in the years ahead. Sales of power tools are expected to continue to be weak until there is a general turnaround in building activity, whilst sales of outboard motors are unlikely to improve until there is a pick up in consumer spending. Given the number of jobs lost in 2009, that could be some way off.

The instrument business should continue to benefit from infrastructure spending and if mines start to expand production there will be additional demand for underground survey equipment. The division is budgeting for a modest increase in profits in 2010.

Principal brands

Air - cooled gensets (ADG)
28 - 152kva.
Air and liquid - cooled engines
9 - 520Kw.
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

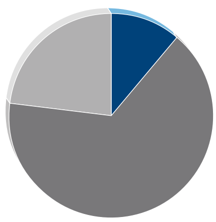
Outboard motors from USA.
Sole distributor since 1978

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

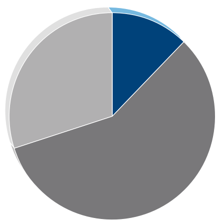
Jack Edery | CEO Elvey Security Technologies

Principal activity

The distribution of intruder detection, access control, related CCTV equipment and fibre-optic equipment.



Contribution to group sales 11%



Contribution to group operating profit 12%

Principal business

Elvey Security Technologies

	2009	2008
Sales (Rm)	**269**	367
- Ongoing	**269**	343
- UK closed in 2008		24
Operating profit (Rm)	**41**	49
- Ongoing	**41**	55
- UK closed in 2008		(6)
Average NOA (Rm)	**70**	80
Number of employees	**196**	196

Elvey Security Technologies

Elvey Security Technologies' ("Elvey") principal business is the distribution of intruder detection, access control and, to a lesser extent, related closed circuit television (CCTV) equipment. The product range includes alarm control panels, keypads, indoor and outdoor motion sensors, access control monitors and indicators, cameras, recording equipment, optical fibre and related data transmission equipment. Internet protocol technology is being incorporated into intruder detection and CCTV products using global system for mobile communication (GSM) and general packet radio service (GPRS) wireless data transmission mechanisms configured to existing transmission control protocol / internet protocol (TCP/IP) networks. This enables users to monitor security systems via the internet or on mobile phones instead of using radio frequencies and fixed phone lines. Elvey has identified this as a future growth opportunity and has established a dedicated access point name (APN) to channel alarm signals and video images through secure, dedicated bandwidth.

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, all of whom are represented on an exclusive basis, are three of the major world manufacturers of intruder detection equipment. Value is added through system design, application and operation advice and installation training.

Division overview

Spending on new construction of housing and commercial premises declined sharply in 2009, which directly impacted the installation of new intruder detection equipment. The general decline in consumer spending which started with the interest rate increases of 2007 has also impacted on replacement and upgrade business and this was exacerbated in 2009 by the impact of the global recession on consumer confidence. Elvey's sales trended steadily downwards throughout the year and, although there were encouraging signs towards year end that the downtrend had stabilised, there were no signs of an upturn. 2009 sales from ongoing operations decreased 22% to R269 million with volume sales declining 25% and price changes accounting for the difference.

Prospects

Sales of new intruder detection equipment are expected to continue to be weak until there is renewed growth in building activity. Sales of equipment for replacement and upgrades are unlikely to improve until there is a pick up in consumer spending, the high crime rate notwithstanding.

It is unlikely that we will see much of a pick up in building activity or consumer spending in 2010 so the depressed conditions in this market seem set to continue. Under these circumstances, an inflationary growth in profits is probably the best that can be hoped for but the business will still generate returns well above its cost of capital.

ELVEY
Security Technologies

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

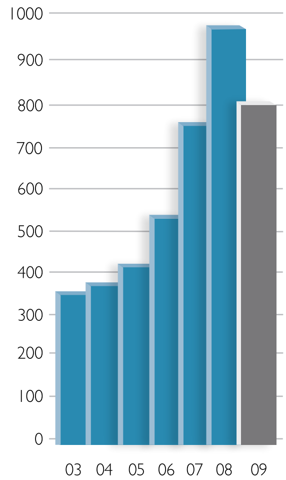
USA and European manufacturer of intrusion and CCTV equipment. Distributor since 2005

Taiwanese manufacturer of CCTV cameras. Sole distributor since 2001

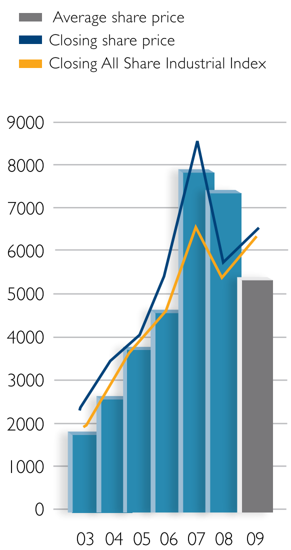
French manufacturer of videofied wireless products. Distributor since 2008

Clifford Amoils | Group financial director

Normalised headline earnings per share (cents)



Hudaco share price (cents)



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. According to the 2009 Sunday Times report on the top 100 listed companies, Hudaco was ranked number 30 over ten years and number 67 over five years. We believe this is evidence that this objective is being achieved.

Our overriding financial objective is to achieve long term growth in earnings and dividends per share. Our internal operating measures and incentive programmes are geared towards achieving this goal.

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

Operating targets and the cost of capital

The main operating performance measure used by the group is operating profit (PBIT), expressed as a percentage of average net operating assets (NOA) employed during the year. NOA is total assets excluding investments and cash less current liabilities excluding interest bearing debt. Each business is measured against its own benchmark, its objective being to maximise its returns by producing the ideal balance between operating profit margin (%) and net operating asset turn (times) with the product of the two being its return on net operating assets (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. A 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 18% roughly equates to the pre-tax cost of capital at current interest and income tax levels. We use this as the "hurdle rate" for new investments. We have set an internal target of no less than 30% for the group as a whole. The group's operating profit margin in 2009 was 12,7% (2008: 15,4%) whilst NOA turn was 2,4 times (2008: 3,0 times). The RONA was therefore 30% (2008: 46%), just on the group's minimum 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 801 cents are down 19% on 2008. Over the last five years headline earnings per share have grown by 116% from 371 cents in 2004 to 801 cents, a compound growth rate of 17% per annum. Over the same period, earnings in the Industrial Index (J257) have grown by a compound growth rate of 15% per annum. Hudaco's price: earnings ratio (based on normalised headline earnings per share of 801 cents) at the end of the 2009 financial year is 51% of the J257 Industrial Index price: earnings ratio of 16,2.

Dividends

Hudaco's dividend policy is to pay interim and final cash dividends to shareholders totalling approximately 40% of normalised headline earnings. This year's dividends total 350 cents (last year 400 cents) – down 13% on last year and made up as follows:

	2009	2008
Interim	**115c**	130c
Final	**235c**	270c
Total	**350c**	400c
% of NHEPS	**44%**	40%

Cash flow

A summarised operating cash flow statement is set out below:

Rm	**2009**	2008
Cash generated from trading	**333**	450
Decrease in working capital	**166**	(235)
Cash generated from operations	**499**	215
Finance costs	**(235)**	(249)
Taxation paid	**(63)**	(56)
Cash flow from operating activities	**201**	(90)

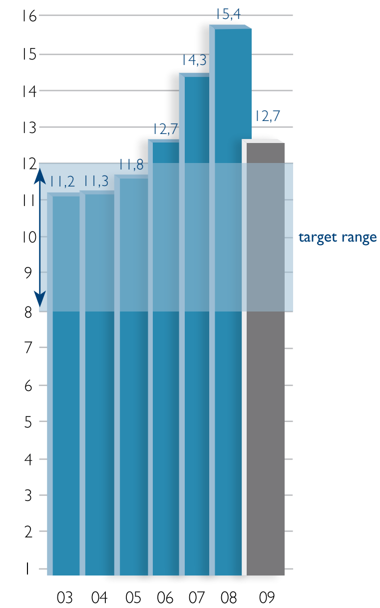
Cash flow from operating activities of R201 million was strong. Interest on dividends received totalled R203 million. After investing R17 million in plant and equipment and paying R129 million in dividends to shareholders, the year closed with cash on hand of R335 million (2008: net R69 million).

Borrowings

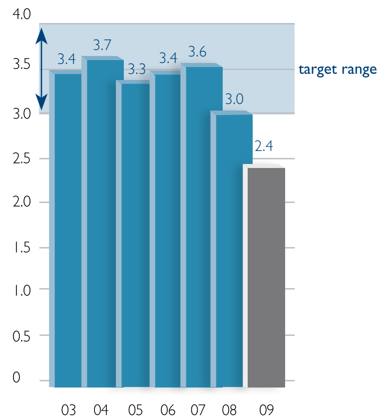
Hudaco has the capacity to take on more senior debt and we would ideally like a more geared balance sheet. However, we would aim to operate with net senior debt no higher than 50% of total shareholders' funds.

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 11 times.

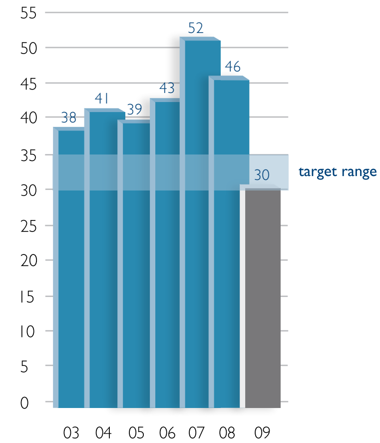
Operating profit margin %
Operating profit | Turnover



NOA* turn times
Turnover | Average NOA



Return on NOA* %
Operating profit | Average NOA



* see page 27 for definition of NOA

Taxation

The group's effective rate of taxation on normalised earnings this year is 9% (2008: 14%). 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 motivated 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 25 to the financial statements sets out full details of how the group manages the elements of 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 Financial Services Board about whether its rules allowed the employer to take a contribution holiday. The Financial Services Board decision was taken on appeal and the case was heard this year but a judgment has not yet been made. The issue remains 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 my colleagues in the group's senior management team, I thank Hudaco's chairman Royden Vice and our non-executive directors for the guidance they gave operational management on strategic and governance issues during 2009.

I personally also extend thanks to all managers and staff in the group, and in particular the members of the executive committee, for their advice and achievements in this difficult year. I also take this opportunity to thank Peter Poole, who served as financial director for 22 years, for his considerable contribution to the group and wish him well in his retirement.

SJ Connelly
Chief executive

28 January 2010

Introduction

Hudaco is committed to maintaining a high standard of corporate governance and the board is fully committed to the principles of the Code of Corporate Practices and Conduct (the code) set out in the King Report on Corporate Governance (King II). In supporting the code, the board recognises the need to conduct the enterprise with integrity and in accordance with generally acceptable corporate practices.

The board is the focal point of the group's corporate governance system and remains ultimately accountable and responsible for its performance and affairs.

Hudaco is also committed to complying with all legislation, regulations and best practices relevant to its operations.

"The board seeks to ensure that good governance is practiced at all levels in the group and that it is an integral part of Hudaco's operations."

Application of and compliance with King II

The board seeks to ensure that good governance is practiced at all levels in the group and that it is an integral part of Hudaco's operations.

The directors believe that Hudaco materially complied with the requirements of King II during the year under review.

The final version of the King III report was released on 1 September 2009 and the effective date of the new King Code of Governance will be 1 March 2010. Hudaco intends to formally address King III in its integrated report for the year ending November 2010.

Board of directors

Board composition

The role of the non-executive directors is to bring independent judgement and experience to the board's deliberations and decisions. The board comprises eight directors, with one alternate director. Five are independent non-executive directors while three are executive directors. A short *curriculum vitae* of each of the directors appears on pages 4 and 5 of this annual report. Hudaco does not have or allow shadow directors.

The board has an appropriate balance, with the majority being independent directors. In line with best practice, the roles of the chairman and the chief executive are separate. The board is led by Royden Vice, an independent non-executive chairman. The chief executive is Stephen Connelly.

The role of the board and board procedures

The board directs the group towards and facilitates the achievement of Hudaco's strategic and operational objectives. It is accountable for the development and execution of the group's strategy, operating performance and financial results. Its primary responsibilities include determining the group's purpose and values, providing strategic direction to the group, appointing the chief executive, identifying key risk areas and key performance indicators of Hudaco's businesses, monitoring the performance of the group against agreed objectives, deciding on significant financial matters and reviewing the performance of executive management against defined objectives and, where applicable, industry standards. A range of non-financial information is also provided to the board to enable it to consider qualitative performance factors that involve broader stakeholder interests. There is a formal schedule of material matters especially reserved for the board's approval. The board, which meets at least quarterly, retains full and effective control over all the operations. Additional board meetings, apart from those planned, are convened as circumstances dictate. The number of meetings held during the year under review, (including meetings of board-appointed committees) and the attendance of each director is set out on pages 31 to 36 of this report.

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

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

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

All board members complete a detailed board assessment every year probing the composition, duties, responsibilities, processes and effectiveness of the board and its committees. The latest evaluation was done in November 2009 and the issues identified by the individual board members have been analysed and will be addressed during 2010.

Board charter

The board has developed and adopted a charter to regulate how its business is to be conducted in accordance with the principles of good corporate governance and legislation. This charter sets out the specific responsibilities to be collectively discharged by the board members as well as the individual roles expected of board members.

The purpose of the board charter is to ensure that all the directors are aware of their duties and responsibilities when acting on behalf of the company. The salient features thereof are set out below:

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

Attendance at board meetings

The following is a list of board meetings attended by each director during 1 December 2008 to 30 November 2009:

	Jan	**Mar**	**Jun**	**Oct**
RT Vice	√	√	√	√
SJ Connelly	√	√	√	√
CV Amoils	*	*	*	√
GE Gardiner	√	√	√	√
JB Gibbon	√	√	√	√
YKN Molefi	√	√	√	√
CWN Molope	√	√	√	√
SG Morris	√	√	√	√
PL Campbell	√	√	*	*
PM Poole	√	√	√	*

* *PL Campbell retired on 26 March 2009 and PM Poole on 30 June 2009. CV Amoils was appointed on 1 July 2009.*

Board appointments

A third of the directors retire by rotation annually. If they are eligible and available, their names are submitted for re-election at the annual general meeting accompanied by an appropriate *curriculum vitae* set out in the annual report. Shareholders approve the initial appointment of each new director at the first annual general meeting of shareholders following that director's appointment.

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

Board committees

A number of board-appointed committees have been established to assist the board in discharging its responsibilities. The membership and principal functions of the standing committees appear on the ensuing pages.

Specific responsibilities have been delegated to the board committees and they operate under written terms of reference approved by the board. Each committee's terms of reference is reviewed annually by the board. Board committees are free to take independent outside professional advice as and when deemed necessary. The group secretary provides secretarial services for all committees except the remuneration committee.

Notwithstanding the establishment of various board committees, the board reserves for itself a range of key matters to ensure that it retains proper direction and control of the company.

There is transparency and full disclosure from board committees to the board. The minutes of committees chaired by independent non-executive directors are submitted to the board for noting and discussion. In addition, directors have full access to all board committee documentation and committee chairpersons provide the board with verbal reports on recent committee activities.

The board is of the opinion that all the board committees have effectively discharged their responsibilities, as contained in their respective terms of reference.

Report of the remuneration and nomination committee

Members: RT Vice (chairman), YKN Molefi and SG Morris

Hudaco's remuneration philosophy is to set appropriate and market related remuneration levels to attract, motivate and retain top-grade, high calibre directors and executive managers required to run the company successfully while aligning their interests with those of the shareholders.

The committee comprises independent non-executives and is chaired by Royden Vice, the chairman of the board. The group chief executive attends meetings by invitation but does not participate in discussion on his own remuneration.

The duties of the committee have recently been expanded to include the duties of a nomination committee. The committee generally meets twice a year unless additional meetings are required.

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

The committee operates under a board-approved mandate and terms of reference aimed at:

- From a remuneration committee perspective, assisting the board to ensure that: the company remunerates directors and executives fairly and responsibly; the disclosure of directors' remuneration is accurate and transparent; performance reviews of senior management are conducted; and guidelines for general salary increases are issued.

- From a nomination point of view, the committee assists the board to ensure that: the board has the appropriate composition for it to execute its duties effectively; directors are appointed through a formal process; induction and ongoing training and development of directors take place; and formal succession plans for the board, chief executive and senior management appointments are in place.

During the year, the committee reviewed and approved senior executive remuneration and issued guidelines and limits for general salary adjustments. To this end, the committee relied on external market surveys and industry reward levels as benchmarks. It also considered and approved the disclosure of remuneration related matters in the annual report.

The committee approved senior appointments, including those of the new financial director and two independent non-executive directors this year and reviewed succession plans, performance and service agreements for members of the executive committee.

Remuneration committee meeting attendance

	Jan	June
RT Vice	√	√
YKN Molefi	√	√
SG Morris	*	√
PL Campbell	√	*

* *PL Campbell retired on 26 March 2009 and SG Morris was appointed as a member of the committee on 29 January 2009.*

Remuneration structure and executive directors' remuneration

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

- Fixed guaranteed remuneration on a cost to company basis;
- Short-term performance-related remuneration, based on annual results; and
- Long-term (three to five years) remuneration linked to share price appreciation.

Benefits within the total cost to company fixed remuneration package include a retirement scheme with risk benefits, medical aid cover and a car allowance. The sustainable contribution of each executive is used as a basis for remuneration reviews.

Short-term performance related remuneration for the chief executive and the financial director is usually linked to the achievement of annual growth in the group headline earnings per share. For the executive directors and other senior 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. This year, given the economic recession, some or all was linked to holding the earnings decline to a specified level. In special cases, the achievement of non-financial targets may also be required. Some parts of short-term performance related remuneration are capped. Typically, 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 and only paid if certain conditions have been met in the second year.

At its meeting in January 2009, the committee reviewed the performance of executives and set targets for the 2009 incentive schemes. The bonuses were paid in accordance with these parameters.

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. In 2006 the group introduced a share appreciation bonus scheme. Awards are made every year. Participants in this scheme are paid a bonus, settled in Hudaco shares and equal to the appreciation in the market value of a predetermined number of Hudaco shares after each of the third, fourth and fifth years 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 rights awarded to directors and senior managers is based on their level of seniority and annual fixed guaranteed remuneration. The performance requirement for awards to vest is set by committee and normally requires the achievement of a cumulative increase in normalised headline earnings per share of CPIX plus 5% per annum between the date of the award and the vesting date. The committee decided not to apply the normal performance criteria in respect of the 2009 financial year.

In July 2009, 265 000 rights were awarded to executive directors in respect of the share appreciation bonus scheme.

Service contracts

Executive directors are appointed subject to Hudaco's standard terms and conditions of employment where notice periods are three months. In the case of the financial director the period is six months.

Non-executive directors' fees

Non-executive directors are remunerated for their membership of the board of Hudaco and board sub-committees.

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

At Hudaco's annual general meeting to be held on 26 March 2010, shareholders will be requested to approve the non-executive directors' fees for the year to 30 November 2010, as recommended in the notice of the annual general meeting on page 85 of this annual report. The board has decided that, to comply with the requirements of King III, non-executive directors' fees will be split between an annual retainer and an attendance component.

Directors' interests in share incentive and share appreciation bonus schemes

The details relating to the directors' interests in share incentive and share appreciation bonus schemes are set out in note 28.2 to the financial statements.

Disclosure of directors' emoluments

The emoluments of the non-executive and executive directors are disclosed in note 28.3 to the financial statements.

Report of the audit and risk management committee

Members: JB Gibbon (chairman), CWN Molope and SG Morris

The audit and risk management committee comprises independent non-executive directors only, as required by the Corporate Laws Amendment Act that was promulgated in December 2007, and is chaired by John Gibbon. All the members have the requisite financial and commercial skills and experience to contribute to the committee's deliberations.

Meetings are held at least three times a year and the chairman of the board, the chief executive, financial director and representatives from the external and internal auditors attend committee meetings by invitation. The committee functions under written terms of reference which were last reviewed and updated in January 2009.

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

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

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

- nominate for appointment a registered auditor who is independent of the company;
- determine the fees to be paid to the auditor and the auditor's terms of engagement;
- ensure that the appointment of the auditor complies with the Companies Act and any other legislation relating to the appointment of auditors;
- determine the nature and extent of any non-audit services which the auditor may provide to the company;
- pre-approve any contract with the auditor for the provision of non-audit services to the company; and
- receive and deal appropriately with any complaints relating to the accounting practices and internal audit of the company, the content or auditing of the financial statements or any other related matter.

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

- It nominated the audit firm Grant Thornton and audit partner Jessica-Anne Saayman for appointment by the shareholders at the forthcoming annual general meeting as the auditor for the 2010 financial year. The committee is satisfied that the firm and the individual auditor are independent of the company and are accredited as auditors on the JSE's Register of Auditors.
- Budgeted audit fees for the financial year ended 30 November 2009 have been approved and the scope of the proposed audit work has been agreed.
- The committee has adopted a policy for the use of external auditors for non-audit related services giving management permission to engage the external auditors for services beyond the annual audit and of an audit nature up to a maximum fee of R100 000 per instance. Any other non-audit related services to be performed by the external auditors require the approval of the committee on a case by case basis. The overarching criterion for approval will be that the independence of the external auditors should not be impaired through the provision of the services under consideration.
- The internal and external auditors have unrestricted access to this committee. Members of the committee are also afforded the opportunity to meet with the head of internal audit and the external auditors without management being present.
- As at the date of this report, no complaints have been received relating to the accounting practices and internal audit of the company or to the content or auditing of the company's financial statements, or to any related matter.
- In terms of paragraph 3.84(h) of the JSE Listings Requirements, the committee has satisfied itself that the expertise and experience of the financial director are appropriate.

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

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

During the year under review the committee discharged all of its duties in respect of risk management. Specifically it:

- ensured that appropriate systems are in place to identify and monitor risks affecting the group;
- evaluated the adequacy of the effectiveness of the risk management process;
- reviewed and assessed issues such as compliance with legislation and corporate governance matters, the impact that significant litigation could have on the group, the adequacy of the insurance cover as well as the effectiveness of controls over areas of risks; and
- provided board level oversight of the management of processes to ensure that the operations remain viable and sustainable.

Audit and risk management committee meeting attendance

	Jan	June	Oct
JB Gibbon	√	√	√
CWN Molope	*	√	×
SG Morris	*	√	√
PL Campbell	√	*	*

* *PL Campbell retired on 26 March 2009. CWN Molope and SG Morris were appointed as members of the committee with effect from 29 January 2009.*
x *Submitted apologies.*

Executive committee

Members: SJ Connelly (chairman), CV Amoils, RC Cameron-Smith, JO Carstens, GC da Silva, GR Dunford, J Edery, GE Gardiner, AR Patten and R Wolmarans.

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

Executive committee meeting attendance

	Jan	Mar	Jun	Oct
SJ Connelly	√	√	√	√
CV Amoils	*	*	*	√
RC Cameron-Smith	√	√	√	√
JO Carstens	√	√	√	√
GC da Silva	√	√	√	√
GR Dunford	√	√	√	√
J Edery	√	√	√	√
GE Gardiner	√	√	×	√
AR Patten	√	√	√	√
R Wolmarans	*	*	√	√
MMM Nkumanda	√	*	*	*
PM Poole	√	√	√	*

* *CV Amoils joined the committee on 1 July 2009, after PM Poole's retirement on 30 June 2009. R Wolmarans joined on 4 May 2009. MMM Nkuamanda resigned at the end of February 2009.*
x *Submitted apologies.*

Group secretary

The group secretary, who is subject to a fit and proper test, assists the board in fulfilling its functions and is empowered by the board to perform her duties. The group secretary directly or indirectly:

- assists the chairman, chief executive and financial director with the induction of new directors;
- assists the board with director orientation, development and education;
- where practical, ensures the group complies with relevant legislation;
- monitors the legal and regulatory environment and communicates new legislation and any changes to existing legislation to the board and the divisions; and
- provides the board with a central source of guidance and assistance.

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

Financial control and risk management

The board recognises its responsibility to report a balanced and accurate assessment of the group's financial results and financial position in terms of International Financial Reporting Standards, its business, operations and prospects.

Hudaco has an established system of controls and procedures to ensure the accuracy and integrity of the accounting records and to effectively monitor the group's businesses and their performance. The system encompasses a wide range of checks and balances, as well as interactive controls. These include:

- decentralised and self accounting operational and financial management;
- an approval framework with defined authority limits;
- a detailed budgeting system;
- the preparation of forecasts, which are regularly reviewed and updated;
- monthly reporting of income 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;
- regular meetings of the boards of the individual businesses; and
- risk registers at operating and group level, which are monitored on a regular basis.

Internal control framework

Hudaco has adopted specific levels of authority and the required approvals necessary for all major decisions at both group and divisional level. Through this framework, operational and financial responsibility is formally and clearly delegated to the chief executive, the financial director and the executives of the principal operating businesses. This is designed to maintain an appropriate control environment within the constraints of board-approved strategies and budgets, whilst providing the necessary local autonomy for day to day operations.

Internal audit

A group risk and internal audit department, which functions under a written charter, provides the role and functions as envisaged in the Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors. The department's work is designed to ensure that all aspects of each business, including internal control procedures, are subject to professional risk assessment on a continuous basis.

These controls and procedures provide reasonable assurance that assets are safeguarded from material loss or unauthorised use and that the financial records may be relied on for preparing the financial statements and maintaining accountability for assets and liabilities.

This department has complied with its brief, which is to conduct a formal review of the effectiveness of all the group's systems of internal control over a three-year cycle, with major systems in all businesses reviewed annually.

The department reports any material findings and matters of significance to the audit and risk management committee on a regular basis. The reports highlight whether actual or potential risks to businesses are being appropriately managed and controlled. Progress in addressing previously unsatisfactory findings is monitored until proper resolution of the problem area has been reported.

The annual audit plan, which is pre-approved by the audit and risk management committee, is determined through an assessment and understanding of risks.

The scope of the internal audit and external audit are co-ordinated in order to provide efficient and effective assurance to the group's audit and risk management committee.

Risk

The board assesses the risks in the group's business environment with a view to eliminating or reducing them in the context of the group's strategies and operations. The group's annual internal audit plan incorporates the outcomes of the risk management process. The group risk and internal audit department provides a risk identification facilitation role. Management is responsible for managing risks on a daily and operational basis.

Litigation and legal

In the normal course of business, Hudaco is subject to various proceedings, actions and claims. These matters are subject to risks and uncertainties that cannot be reliably predicted. The board does not believe that, except for the pension fund contingent liability described in note 24 to the financial statements, there is any material pending or threatening legal action that may have a material effect on the group's financial position.

Information technology

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

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

Share dealings

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

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

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

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

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

Relationship with stakeholders

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

Hudaco is committed to:

- transforming the South African society and economy to redress the inequities of the past;
- producing superior returns for our shareholders by building on the base of our existing businesses and by continuously looking for growth opportunities;
- continuing to earn our strong market shares by offering quality products and ready availability to our customers;
- establishing enduring partnerships with our suppliers by combining their leading work brands and our distribution strengths in southern Africa;
- providing a decentralised, dynamic and challenging business environment in which its employees can thrive; and
- maintaining high standards of ethical conduct, sensitive to the needs of the communities in which our businesses operate whilst fully conscious of our responsibilities for safety and the environment.

In communicating the group's strategy and results, Hudaco makes use of a broad range of communication channels such as the Hudaco website (www.hudaco.co.za), SENS and the print and radio media.

Regular presentations are made by the chief executive and the financial director to institutional investors, analysts and the media.

Nedbank Capital, a division of Nedbank Limited, acted as the company's sponsors during the year under review.

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

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

The sustainability report on page 40 of the annual report deals with Hudaco's overall strategy on black economic empowerment, employment equity issues, training and development initiatives, occupational health and safety matters and Hudaco's policy with regard to HIV/Aids as well as the environment.

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

We understand that we have a responsibility to the people who enable us to conduct business and the country in which we operate. We acknowledge that it is important to manage our economic, social and environmental relationships effectively, which should ensure a better quality of life for all our stakeholders.

Sustainability reporting is a dynamic process which relies on feedback from stakeholders and continual improvement to reach the many goals associated with responsible citizenship.

We are committed to improving our processes, systems and skills to ensure that our business remains sustainable on all levels and does not impair the quality of life of its stakeholders.

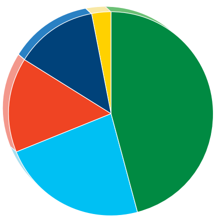
"We acknowledge that it is important to manage our economic, social and environmental relationships effectively, which should ensure a better quality of life for all our stakeholders."

Group value-added statement

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

R000	**2009**	2008
Turnover	**2 420 308**	2 765 661
Less: cost of materials, facilities and services from outside the group	**1 633 039**	1 852 972
Value added	**787 269**	912 689
Dividends received on preference shares	**202 055**	200 404
Total wealth created	**989 324**	1 113 093
Distributed to:		
Employees - salaries, wages and other benefits	**457 173**	469 500
Government - company taxation	**23 861**	55 553
Net finance costs	**229 836**	240 405
Shareholders - dividends	**129 410**	112 123
Maintain and expand the group		
- profits retained	**118 481**	217 821
- depreciation, amortisation and impairment	**30 563**	17 691
Total wealth distributed	**989 324**	1 113 093

DISTRIBUTION OF WEALTH CREATED



	2009	2008
	%	%
Employees	**46**	42
Lenders	**23**	22
Reinvested	**15**	21
Shareholders	**13**	10
Taxation	**3**	5

Statement of gross contributions to the government in South Africa

R000	2009	2008
Company income tax and STC	**23 237**	54 839
Customs and excise duty	**28 170**	36 347
Skills development levies and assessment rates	**5 085**	4 620
Value-added tax not recognised as input credit	**979**	1 195
Direct contribution to government	**57 471**	97 001
Add the following collected on behalf of the government:		
Value-added tax (net)	**105 036**	78 611
Employees tax	**79 788**	71 053
	242 295	246 665

Corporate ethics

Hudaco's board of directors regards the Hudaco Group Code of Business Ethics, developed and issued in accordance with the recommendations of King II, as a platform for achieving and sustaining appropriate standards of ethical behaviour, corporate governance and accountability by all employees in Hudaco. The Code is designed to communicate the required standards of conduct to all Hudaco employers and their employees, who are naturally and unequivocally also required to comply with applicable laws and regulations.

The Code is intended for use as a guide in day-to-day decisions and outlines aspirational behavioural guidelines. Contravention of the Code may result in disciplinary action and, where applicable, criminal prosecution.

The Code is handed to all new employees and its use is encouraged in training programmes to assure customers, suppliers and competitors of Hudaco's commitment to business integrity. The Group Code constitutes an addition to all other policies and specific codes of practice issued by Hudaco businesses. All obligations imposed by law or by contracts between Hudaco businesses and their employees, remain in force and are not affected or amended by the Code.

Hudaco's values are indivisible from the Code. All employees are expected to know, understand and support these values and integrate them, in a demonstrable way, into all activities. The Code has been designed to encourage honesty and integrity in accordance with a high level of moral and ethical standards, in both business and interpersonal interactions. These values also include fairness, respect for the rights and dignity of others, tolerance of alternative views, protection from victimisation, healthy relationships, mutual support and loyalty.

Bearings International, Hudaco's largest business, has developed a separate more comprehensive Code of Ethics which expands on the Hudaco Code. It divides good corporate governance into four key principles - fairness, accountability, transparency and responsibility - which are to be applied consistently in interactions with all stakeholders. Bearings International requires also that its employees do not engage in practices or pursue private interests which are in conflict with the organisation's interests. A conflict of interest in this sense is one which could result in financial damage or loss being suffered by the organisation or in harm to the organisation's image in the eyes of the business community or the investing public. The standards laid down in the policy apply equally to all employees and their relationships with suppliers and customers. Bearings International issues both codes to all new employees and publishes them on its Intranet.

To facilitate ethical business practice, Bearings International has a fraud hotline, managed by an external service provider that allows employees to communicate sensitive information securely, confidentially and anonymously if they suspect that a contravention of the Code or a criminal act has been committed by another employee. This concept is being rolled out to all Hudaco businesses.

In the interim, other Hudaco businesses have implemented an "Open Door" policy to the human resources department and to the company's directors in the event of such cases.

Potential exposure to bribery and corruption is mitigated through internal checks and balances, by taking strong action against transgressors, closely scrutinising sales reports, conducting regular stock counts and encouraging honesty and professionalism in the day to day activities of the businesses. Elvey, for example, follows a risk management protocol involving internal and external auditors, while Rutherford employs a private security company to monitor risk exposure.

The board is not aware of any incidents of non-compliance with legislation or anti-competitive issues that arose during the year.

Transformation

Hudaco recognises the need for transformation within South Africa's economy and society to redress inequities in the past and supports the view that business can play a leading role in this regard. We believe that the seven pillars of the DTI's Codes for Good Practice correctly identify the most important areas requiring effort.

Our businesses were set an objective to achieve Level 4 (65 points) on the DTI Broad-Based Black Economic Empowerment Codes of Good Practice scorecard (BBBEE scorecard). During 2009 all businesses were audited by independent verification bodies. Except for Deutz Dieselpower, all the businesses reached level 4 or better this year.

Bearings International elevated its BBBEE rating from Level 4 to Level 3 and, following the successful application of the Value Adding Enterprise test, its customers can now claim 137,5% black spend for the purpose of their own BBBEE scorecards. This is up from the 125% of 2008. Level 3 is the highest BBBEE rating for a company in this sector and this achievement has been described in the SA Mechanical Engineer (Nov/Dec 2009) as "remarkable for a company of this size and complexity".

Deutz Dieselpower has engaged the services of a consultant to assist in setting up its BBBEE plan. The company is planning to move from a non-compliant contributor at the end of November 2009 to a level 6 contributor by November 2011.

Black ownership

During 2007 the Hudaco group completed a transaction to introduce direct BEE ownership of 15% in the group's primary operating subsidiary, Hudaco Trading (Pty) Limited, bringing its total BEE ownership, direct and indirect to 25%. Deutz Dieselpower, our diesel engine business, which has its supplier Deutz AG of Germany as a 30% shareholder, did not participate in this transaction. In addition to giving up 15% of their shareholding, the initial cost to ordinary shareholders was a charge in the income statement of R37 million.

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

Management representation and employment equity

Progress in transforming the group workforce is reflected in the table below.

Workforce profile	**2009**	2008
Total workforce	**2 310**	2 378
Less: non-permanent employees	**69**	90
Total permanent workforce	**2 241**	2 288
Racial and gender profile:		
White male	**614**	618
White female	**307**	313
Black, Indian, Coloured and Chinese male	**1 055**	1 104
Black, Indian, Coloured and Chinese female	**265**	253
Occupational level profile:		
Top and senior management	**59**	58
Middle management	**237**	251
Junior management	**797**	796
Non-management	**1 148**	1 183
Top and senior management profile by race:		
White	**54**	53
Black, Indian, Coloured and Chinese	**5**	5
Management profile by gender:		
Female	**235**	242
Male	**858**	863
Management profile by race:		
White	**693**	731
Black, Indian, Coloured and Chinese	**400**	374
Non-management profile by gender:		
Female	**337**	324
Male	**811**	859
Non-management profile by race:		
White	**228**	200
Black, Indian, Coloured and Chinese	**920**	983

Skills development

Hudaco endeavours 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. In the case of appointments to senior management, the approval of three executive directors is required if the proposed appointee is white.

The board also encourages BEE through training and skills development initiatives that include bursary programmes, management training schemes, experiential trainee programmes, mentorships, apprenticeships, educational assistance and learnerships.

During the year under review, group expenditure on employee training amounted to approximately R2,4 million. Extensive in-house and external training is given in a wide range of practical and theoretical subjects to better equip employees in all businesses with the skills required for senior positions. A 2008/9 in-house Leadership Development Programme run in conjunction with the University of Pretoria (GIBS) was completed this year. There were 45 participants.

Hudaco provides financial assistance to the University of Johannesburg with an objective of maintaining the international standard of qualifications granted by its Mechanical Engineering department. In terms of a subvention agreement, the salary of a senior lecturer is supplemented by Hudaco. In addition, students are offered practical training at businesses in the group and some subsequently find full time employment in the group.

Hudaco also financially supports the Thuthuka Bursary Fund, which develops and trains black Chartered Accountants.

Enterprise development

Hudaco favours suppliers that have good BBBEE scorecard ratings and uses Qualifying Small Enterprises (QSE) vendors wherever possible, working closely with them to improve their service delivery. Bearings International's total spend between December 2008 and November 2009 with BBBEE and SMME (small, medium and micro enterprises) suppliers was 32,3%. Among the other businesses, BBBEE and SMME spend ranges up to about 70%. Deutz Dieselpower has implemented a system of early payment to Level 4 contributors, while Elvey Security Technologies has employed two historically disadvantaged South Africans to establish an in-house repair and assembly line.

Corporate social investment

Each year the board sets aside a specific amount for corporate social investment. Various charitable institutions receive support from Hudaco. Through financial and non-financial contributions, Hudaco is involved with a number of specific socio-economic development projects aimed at improving the lives of previously disadvantaged communities. The group has also undertaken to act as patron to a black female student at Artist Proof Studio.

The Hudaco Trading BEE Staff Education Trust, a 5% shareholder in Hudaco Trading (Pty) Limited, has been established with a mandate to empower current and future black employees, their spouses and their children by granting scholarships, bursaries and study loans to eligible applicants. Grants totalling approximately R500 000 were awarded for the first time in the 2009 academic year to 14 beneficiaries, of whom eight were women. These beneficiaries may study towards any career of their choice and, on completion of their studies, are under no obligation to work for or repay Hudaco. As the trust has not yet built up sufficient reserves to fund these bursaries, Hudaco has provided the required resources.

Human capital

Employees

In our sector where skill shortages continue to remain a challenge, Hudaco is mindful of the vital role its employees play in contributing to the ongoing success of the group.

Guidelines, which support the retention of existing skilled staff, attract new talent from outside of the group and develop an internal skills pipeline, have been implemented and as a result, staff retention is relatively high for the industry.

Health and Safety

Hudaco is committed to providing a safe and healthy environment for its employees. All businesses are required to comply with the Occupational Health and Safety Act (No 85 of 1993) (OHS Act).

Hudaco applies the principles contained in the ILO Guidelines on Occupational Health and Safety to all its operations. These include:

- the identification and elimination or control of work related hazards and risks;
- instruction and training of line managers to take responsibility for health and safety;
- engagement of employees through health and safety committees;
- setting targets for continual improvement; and
- compliance with relevant national laws and regulations.

In accordance with the OHS Act, each Hudaco business has a health and safety committee, which meets monthly to discuss OHS issues. These committees comprise, where relevant, health and safety representatives, people trained in first aid and fire team members.

Businesses mitigate health and safety risks through the efforts of risk assessment personnel for warehouse and administrative operations, by issuing relevant personnel with personal protective equipment and providing thorough training on the machinery used in their day-to-day work duties. Comprehensive safety training is conducted alongside measures such as fire drills and evacuation procedures, buddy support systems, driver training, regular servicing and inspection of machinery, hazard reduction and safety awareness signage.

The executive committee has approved a "Life-threatening Diseases Policy" which has been adopted by all businesses. From a benefit point of view, the policy regards HIV/Aids in the same light as other life-threatening diseases and ensures non-discrimination against HIV positive employees. HIV/Aids issues are addressed through business-specific HIV/Aids policies and the provision of workshops and confidential support and guidance. Businesses monitor the incidence of HIV to the extent that they are able to determine the appropriate individual approach to the disease. Top and senior management are required to undergo annual medical examinations.

During the year under review, most Hudaco businesses underwent health and safety audits according to OHSAS 18001 health and safety management systems or during ISO auditing and accreditation processes.

Environment

Hudaco recognises that the environmental impact of its businesses is an important aspect of triple bottom line corporate responsibility. Although the sector of the industrial engineering industry in which we operate is not classified as high impact, Hudaco is nevertheless committed to understanding its environmental impact and, if adverse, reducing it wherever possible.

We are increasingly becoming environmentally aware and no incidents of non-compliance, prosecution or fines relating to environmental performance or management were reported during 2009.

Bearings International holds accreditation for ISO 14001, OHSAS 18001, ISO 9001 and ISO 26000. ISO 14001 is an international environmental standard that integrates the business' environmental efforts with that of its suppliers. This business' primary environmental priority areas are optimisation of energy and paper consumption, recycling paper and packaging materials and minimising landfill waste. For example, Bearings International as part of its ISO 14001 objectives, aims to convert use of incandescent light bulbs to energy saving bulbs wherever possible and to reduce A4 paper consumption by 20% by July 2010.

Hudaco sells only top quality products, which increases the average time between product failures, in turn minimising scrap. Packaging used is mostly recyclable. Again using Bearings International as an example, the business has a nationwide paper and cardboard recycling agreement with Mondi and recycles or disposes of its used printer cartridges responsibly. Used wooden crates and packages are made available to disadvantaged communities to be used as building materials.

Deutz Dieselpower is ISO 14001, OHSAS 18001 and ISO 9001 accredited and distributes and services emission optimised Deutz Diesel engines which are built in accordance with EU and EPA emission standards. The company recycles paper, cardboard, old engine oil and packaging and, with water conservation part of its environmental management programme, is evaluating ways to reduce its overall water consumption and utilisation.

Elvey Security Technologies is compliant with ISO 14001, OHSAS 18001 and ISO 9001, with an ISO 14001 environmental management system in place and its products are compliant with the Restriction of Hazardous Substances Directive (RoHS). The business is moving away from the use of fluorescent based tubes and is adopting long lasting light bulbs and tubes to conserve energy. An external company recycles all Elvey's faulty batteries and a waste recycling programme will be in place from 2010.

Belting Supply Services, which now includes BEP Bestobell, holds ISO 14001, OHSAS 18001 and ISO 9001 accreditation.

Bosworth is ISO 9001, ISO 14001 and OHSAS 18001 accredited.

Abes Technoseal and Rutherford are ISO 14001, OSHAS 18001and ISO 9001 accredited and are committed to achieving improvements in overall environmental performance. Rutherford has adopted the ISO 14001 environmental management standard, tailored to complement its ISO 9001 quality management system and integrated into its management information system. It has an internal audit process in place to monitor all environmental processes and to ensure that its objectives and targets are achieved.

The smaller businesses in the group also devote attention to environmental issues and generally follow the lead of the larger businesses.

Declaration by the group secretary

Reana Wolmarans | Group secretary

In terms of section 268G(d) of the Companies Act, 1973, as amended, I certify that, to the best of my knowledge and belief, the company has lodged with the Registrar of Companies for the financial year ended 30 November 2009 all such returns as are required of a public company in terms of the Companies Act, and that all such returns are true, correct and up to date.

Reana Wolmarans
Group secretary

28 January 2010

Financial statements

Contents

Statement of directors' responsibility

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

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

The external auditors are responsible for carrying out an independent examination of the financial statements in accordance with International Standards on Auditing and reporting their findings thereon. The auditors' report is set out in page 50.

To enable the board to meet its responsibilities, systems of internal control and accounting and information systems have been implemented. These are aimed at providing reasonable assurance that risk of error, fraud or loss is reduced. The group's internal audit function, which has unrestricted access to the group's audit committee, evaluates and, if necessary, recommends improvements in the systems of internal control and accounting practices, based on audit plans that take cognisance of the relative degrees of risk of each function or aspect of the business.

The audit committee, together with the internal auditors, plays an oversight role in matters relating to financial and internal control, accounting policies, reporting and disclosure.

To the best of its knowledge and belief, based on the above and after making enquiries, the board of directors confirms that it has every reason to believe that the company and the group have adequate resources in place to continue in operational existence for the foreseeable future. For this reason, it continues to adopt the going concern basis in preparing the annual financial statements.

The annual financial statements for the year ended 30 November 2009, which appear on pages 51 to 81, were approved by the board on 28 January 2010 and are signed on its behalf by:

RT Vice
Chairman

SJ Connelly
Chief executive

28 January 2010

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 2009, 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 51 to 81.

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 annual financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' responsibility

Our responsibility is to express an opinion on these annual 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 annual 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 2009, 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: J Saayman
Chartered Accountant (SA)
Registered Auditor

28 January 2010

137 Daisy Street
Cnr Grayston Drive
Sandown, 2196
Johannesburg

For the year ended 30 November 2009

Nature of business
Hudaco Industries is an investment holding company involved in the broad field of the importation of high quality branded engineered 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 and security equipment.

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

Subsidiaries
Particulars of the principal subsidiaries are set out on page 81 of the financial statements.

The attributable interest of the company in the aggregate profits and losses after taxation of its subsidiaries for the year ended 30 November 2009 are:

Rm	2009	2008
Profits	**293**	317
Losses	**(48)**	(6)

Acquisitions and disposals
There were no acquisitions during the financial year. The pumps division of the Mather & Platt business was disposed of for a consideration of R10 million in February 2009.

Resolutions
No special resolutions, the nature of which might be significant to shareholders in their appreciation of the state of the affairs of the Hudaco group, were passed by the company's subsidiaries during the period covered by this annual report.

Share buy-back programme
Annually the directors seek, and obtain, the approval of the shareholders in general meeting to purchase Hudaco shares. This authority, valid until the following year's annual general meeting and subject to the Listings Requirements of the JSE Limited, allows the Hudaco group to purchase its own shares up to a maximum of 10% of the issued shares, at a price not greater than 10% above the preceding five-day weighted average. Shareholders will be asked to renew this authority at the annual general meeting in March 2010.

During the year, Hudaco did not repurchase any of its own shares and continues to hold indirectly, through a wholly owned subsidiary, a total of 2 507 828 Hudaco ordinary shares, representing approximately 7,4% of its issued capital.

Share capital
The authorised capital remained unchanged during the year. The issued share capital was increased by R31 701 to R3,4 million through the issue of 317 005 shares of 10 cents each to employees in terms of the share incentive scheme for a total consideration of R7,7 million (average of R24,35 per share).

Full details of the authorised and issued capital of the company at 30 November 2009 are contained in note 17 to the financial statements.

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

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

Mr CV Amoils was appointed to the board on 1 July 2009. Messrs PL Campbell and PM Poole retired on 26 March 2009 and 30 June 2009 respectively.

The board records its appreciation of the many years of service rendered to the group by the above-mentioned two gentlemen.

In terms of the company's articles of association, Mr CV Amoils is required to retire at the forthcoming annual general meeting and Ms YKN Molefi and Mr RT Vice retire by rotation. All the retiring directors are eligible and available for re-election. Their profiles appear on pages 4 and 5 of this report.

Directors' interests
As at year end, the directors' interests in the issued shares of the company were as follows:

	Beneficial		Non-beneficial	
Direct	**2009**	2008	**2009**	2008
RT Vice	**4 000**	4 000		
SJ Connelly	**175 634**	275 634	**1 680**	1 680
GE Gardiner#	**26 905**	90 000		
PL Campbell**				5 000
PM Poole**		210 942		
	206 539	580 576	**1 680**	6 680

 # These shares are subject to a call option exercisable in September 2011.
*** Retired during 2009.*

The directors held no indirect interests in the shares of the company. YKN Molefi holds 0,83% of the share capital of Hudaco Trading (Pty) Limited.

The shareholdings above have not changed between 30 November 2009 and the date of the notice of the annual general meeting which forms part of this annual report.

Details of the executive directors' interests in the Hudaco share incentive and share appreciation bonus schemes are provided in note 28.2 to these financial statements.

Directors' emoluments
The emoluments of executive and non-executive directors are determined by the company's remuneration committee. Further information relating to the earnings and perquisites of the directors are set out in notes 28.2 and 28.3 to the financial statements.

Secretary
MMM Nkumanda resigned as group secretary with effect from 28 February 2009. R Wolmarans was appointed in his stead on 4 May 2009. The address of the secretary is set out on page 91.

Post balance sheet events
There were no events after year end that warrant disclosure in this report.

Group income statement

For the year ended 30 November 2009

	Notes	2009 R000	2008 R000
Turnover		**2 420 308**	2 765 661
Cost of sales		**1 468 866**	1 683 798
Gross profit		**951 442**	1 081 863
Operating expenses	4	**644 378**	654 742
Operating profit	4	**307 064**	427 121
Impairment of goodwill and intangible assets		**(8 670)**	
Net surplus on sale of business	5	**1 139**	
Net loss on closure of operations discontinued in 2008	6		(1 623)
Profit before interest		**299 533**	425 498
Dividends received on investment in preference shares		**202 055**	200 404
Interest received		**4 959**	12 450
Finance costs	7	**(234 795)**	(252 855)
Profit before taxation		**271 752**	385 497
Taxation	9	**23 861**	55 553
Profit after taxation		**247 891**	329 944
Attributable to:			
Shareholders of the group		**243 237**	306 869
Minorities		**4 654**	23 075
		247 891	329 944
Basic earnings per share (cents)	10	**784**	995
Diluted basic earnings per share (cents)	10	**769**	970
Headline earnings per share (cents)	10	**801**	964
Diluted headline earnings per share (cents)	10	**785**	940
Normalised headline earnings per share (cents)	10	**801**	995
Diluted normalised headline earnings per share (cents)	10	**785**	970

Group balance sheet

At 30 November 2009

	Notes	2009 R000	2008 R000
Assets			
Non-current assets		**2 418 326**	2 429 418
Property, plant and equipment	11	**90 837**	92 211
Investment in preference shares	12	**2 180 966**	2 180 966
Goodwill	13	**117 246**	131 226
Intangible assets	14	**17 636**	25 015
Deferred taxation	19	**11 641**	
Current assets		**1 288 034**	1 421 859
Inventories	15	**596 950**	779 878
Accounts receivable	16	**355 923**	507 413
Bank deposits and balances		**335 161**	134 568
Total assets		**3 706 360**	3 851 277
Equity and liabilities			
Equity		**1 184 352**	1 054 744
Shareholders' equity		**1 150 094**	1 015 050
Minority interest		**34 258**	39 694
Non-current liabilities		**2 186 007**	2 203 261
Subordinated debenture	18	**2 180 966**	2 180 966
Deferred taxation	19		4 609
Amounts due to vendors of businesses acquired	20	**5 041**	17 686
Current liabilities		**336 001**	593 272
Accounts payable	21	**325 884**	488 207
Amounts due to bankers			65 197
Amounts due to vendors of businesses acquired	20		6 675
Taxation		**10 117**	33 193
Total equity and liabilities		**3 706 360**	3 851 277

Group cash flow statement

For the year ended 30 November 2009

	Notes	2009 R000	2008 R000
Cash flow from operating activities			
Operating profit		**307 064**	427 121
Adjusted for:			
Cost of equity compensation		**3 972**	6 490
Depreciation and loss (surplus) on disposal of property, plant and equipment		**18 074**	12 537
Amortisation of intangible assets		**3 979**	3 053
Decrease (increase) in working capital	23.1	**166 156**	(234 842)
Cash generated from operations		**499 245**	214 359
Fair value adjustment of cash flow hedges		**(562)**	1 048
Finance costs	23.2	**(234 795)**	(250 594)
Taxation paid	23.3	**(63 187)**	(55 948)
Net cash from operating activities		**200 701**	(91 135)
Cash flow from investing activities			
Payments to vendors of businesses acquired		**(6 752)**	(13 399)
Purchase of property, plant and equipment		**(19 834)**	(25 136)
Proceeds from disposal of property, plant and equipment		**2 914**	5 071
Discontinuation of businesses	23.4	**7 298**	1 661
Acquisition of new businesses			(128 346)
Dividends and interest received	23.5	**203 156**	212 854
Net cash from investing activities		**186 782**	52 705
Cash flow from financing activities			
Proceeds from issue of share capital		**7 717**	4 138
(Decrease) increase in amounts due to bankers		**(65 197)**	65 197
Dividends paid	23.6	**(129 410)**	(213 621)
Net cash from financing activities		**(186 890)**	(144 286)
Net increase (decrease) in cash and cash equivalents		**200 593**	(182 716)
Cash and cash equivalents at the beginning of the year		**134 568**	317 284
Cash and cash equivalents at the end of the year		**335 161**	134 568
Cash flow per share (cents)	23.7	**1 214**	232

For the year ended 30 November 2009

R000	Share capital	Share premium	Non-distributable reserves	Retained income	Shareholders' equity	Minority interest	Equity
Note	17.2		17.6	17.4			
Balance at 30 November 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 reserves			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 22)				(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**
Balance at 30 November 2008	3 343	34 238	54 605	941 570	**1 033 756**	39 694	**1 073 450**
Profit after taxation				243 237	**243 237**	4 654	**247 891**
Increase in equity compensation reserves			4 460	(488)	**3 972**		**3 972**
Movement on fair value of cash flow hedges			(562)		**(562)**		**(562)**
Issue of 317 005 shares	32	7 685			**7 717**		**7 717**
Dividends (note 22)				(119 320)	**(119 320)**	(10 090)	**(129 410)**
Balance at 30 November 2009	3 375	41 923	58 503	1 064 999	**1 168 800**	34 258	**1 203 058**
Less: shares held by subsidiary company	(251)		(41)	(18 414)	**(18 706)**		**(18 706)**
Net balance at 30 November 2009	3 124	41 923	58 462	1 046 585	**1 150 094**	34 258	**1 184 352**

For the year ended 30 November 2009

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, which are 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 separately or internally generated.

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

1.6 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 was 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. A deferred tax asset is 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 Pound Sterling.

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) was the Pound Sterling. The assets and liabilities of Elvey UK at the balance sheet date were translated to the group's presentation currency, Rand, at the rate of exchange ruling at the balance sheet date. Its income statement was translated at the average exchange rate ruling for the year. Exchange differences arising on this translation were 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 was recognised in the income statement.

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

Subsequent to initial recognition these instruments are measured as follows:

- 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.

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.

Gains and losses on subsequent measurements are treated as follows:

- 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 shareholder's 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.

1.19 Current taxation
The tax currently payable is based on the taxable profit for the year. Taxable profit differs from profit as reported in the income statement as it excludes items of income and expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The group's tax liability is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

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 11
Investments - note 12
Impairment of goodwill tests - note 13
Fair value and impairment of intangible assets - note 14
Inventories - allowance for slow-moving and obsolete inventory - note 15
Trade receivables - allowance for doubtful debts - note 16
Fair value of share-based payments - note 17.5
Contingent liabilities - the assessment, based on expert advice received, to determine whether an item is a contingent or actual liability - note 24
Fair value of financial instruments - note 25

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

For the year ended 30 November 2009

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

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 ending 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.

	2009 R000	2008 R000
4 Operating profit		
Operating expenses comprise:		
Staff costs	**457 173**	469 500
Property rentals under operating leases (note 24)	**39 098**	39 420
Depreciation	**17 914**	14 638
Amortisation	**3 979**	3 053
Other expenses	**172 639**	177 217
Allocated to cost of sales	**(46 425)**	(49 086)
	644 378	654 742
Included in other expenses and cost of sales are:		
(Loss) gain on translation of foreign currency monetary items	**(9 857)**	11 635
Cost of fair value hedges	**10 617**	20 204
(Loss) surplus on disposal of property, plant and equipment	**(160)**	2 101
5 Net surplus on sale of business		
Surplus on disposal of operating assets	**3 065**	
Cost to relocate remainder of business	**(1 792)**	
Other costs	**(134)**	
	1 139	
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	**234 795**	232 876
Interest paid on short term interest-bearing borrowings		17 718
Interest imputed on amounts due to vendors of businesses acquired		2 261
	234 795	252 855
8 Auditors' remuneration		
Audit fees - current year	**4 777**	4 279

	2009 R000	2008 R000
9 Taxation		
9.1 Taxation comprises		
South African normal taxation		
Current year	**38 294**	55 001
Prior years	**332**	1 214
Deferred normal taxation		
Current year	**(16 151)**	(2 488)
Prior years	**(99)**	(1 058)
Adjustment to deferred tax due to rate change		52
Secondary tax on companies	**1 164**	1 884
Foreign normal taxation - current year	**312**	745
Capital gains tax	**9**	203
Total taxation	**23 861**	55 553
9.2 Reconciliation of rate of taxation	**%**	%
Normal rate	**28,0**	28,0
Exempt income/foreign rate differential	**(21,8)**	(14,6)
Disallowable expenditure	**2,1**	0,4
Capital gains tax		0,1
Secondary tax on companies	**0,4**	0,5
Prior year under provision	**0,1**	
Effective rate of taxation	**8,8**	14,4

10 Headline earnings and earnings per share

	2009 R000	2008 R000
Calculation of headline earnings		
Profit attributable to shareholders of the group	**243 237**	306 869
Adjusted for:		
Impairment of goodwill and intangible assets	**8 670**	
Tax effect of impairment of intangible assets	**(952)**	
Minority interest in impairment of goodwill and intangible assets	**(1 158)**	
Net surplus on sale of business	**(1 139)**	
Tax effect of sale of business	**(502)**	
Minority interest in sale of business	**246**	
Loss (surplus) on disposal of property, plant and equipment after taxation	**101**	(1 288)
Foreign currency translation reserve realised when operation discontinued in 2008		(8 179)
Headline earnings	**248 503**	297 402
Calculation of normalised headline earnings		
Headline earnings	**248 503**	297 402
Adjusted for:		
Impairment of assets in operations discontinued in 2008		9 802
Minority share of impairment of assets in operations discontinued in 2008		(423)
Normalised headline earnings	**248 503**	306 781

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 31 023 025 shares (2008: 30 836 489) in issue during the year, taking account of shares held by a subsidiary.

The calculation of diluted earnings per share is based on 31 643 744 shares (2008: 31 632 122), being the weighted number of shares in issue of 31 023 025 plus 620 719 deemed free issue shares. This assumes that all the shares granted in the share incentive scheme (note 17.5) at prices less than R52,34 (being the average market price for the current year) are taken up and any bonus due in terms of the share appreciation scheme is settled in shares at R66,00 per share. The number of deemed free issue shares is the difference between the number of shares assumed to have been taken up and the number of shares that could have been acquired with such proceeds at the average market price per share.

For the year ended 30 November 2009

11 Property, plant and equipment

2009	Freehold land and buildings	Plant	Computers	Motor vehicles	Other assets	2009 Total R000
Cost						
Opening balance	10 847	42 651	37 755	41 468	22 568	**155 289**
Sale of business		(99)		(222)		**(321)**
Additions	1 239	3 208	5 618	6 500	3 269	**19 834**
Disposals		(792)	(2 318)	(4 887)	(1 893)	**(9 890)**
Closing balance	12 086	44 968	41 055	42 859	23 944	**164 912**
Accumulated depreciation						
Opening balance	2 892	14 012	20 898	14 906	9 370	**62 078**
Sale of business		(34)		(67)		**(101)**
Depreciation for the year	110	2 882	5 097	7 207	2 618	**17 914**
Disposals		(487)	(1 854)	(3 011)	(1 464)	**(6 816)**
Closing balance	3 002	16 373	24 141	19 035	10 524	**73 075**
Impairment						
Opening and closing balance	1 000					**1 000**
Net book value	8 084	28 595	16 914	23 824	13 420	**90 837**

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 and closing balance	1 000					1 000
Net book value	6 955	28 639	16 857	26 562	13 198	92 211
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.

	2009 R000	2008 R000
12 Investment in preference shares		
Unlisted securities		
Business Venture Investments No 1095 (Pty) Ltd - 100 000 redeemable non-cumulative preference shares. This company is a ring-fenced private company that is managed by and is a wholly owned subsidiary of Cadiz Asset Management (see note 25.3) The preference shares, which the group intends to hold to maturity, are redeemable on 31 August 2017 and are pledged as security for the subordinated debenture (see note 18). Dividends are received quarterly at a rate of 9,2% nominal annual compounded quarterly.	**2 180 966**	2 180 966
Directors' valuation	**2 180 966**	2 180 966
13 Goodwill		
13.1 Goodwill comprises:		
Goodwill arising before 1 January 2001 at cost	**130 537**	130 537
Less: amounts written off in terms of prior accounting policies	**(130 537)**	(130 537)
Goodwill arising after 1 January 2001 at cost	**135 551**	144 261
Less: accumulated amortisation to 31 March 2004	**(11 535)**	(11 535)
Less: accumulated impairment from 1 April 2004	**(6 770)**	(1 500)
	117 246	131 226
13.2 Movement for the year		
Balance at beginning of year	**131 226**	76 619
Adjustments to purchase consideration	**(8 710)**	661
Impairment of goodwill	**(5 270)**	
Acquisitions during the year		55 687
Transferred to plant, intangible assets and deferred taxation		(1 741)
	117 246	131 226

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 18%, a discounted cash flow 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 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.

For the year ended 30 November 2009

14 Intangible assets

2009	Customer contracts	Other	2009 Total R000
Cost			
Opening and closing balance	15 924	12 144	**28 068**
Accumulated amortisation			
Opening balance	2 378	675	**3 053**
Amortisation for the year	3 170	809	**3 979**
Closing balance	5 548	1 484	**7 032**
Accumulated impairment			
Impairment for the year	3 400		**3 400**
Closing balance	3 400		**3 400**
Net book value	6 976	10 660	**17 636**

2008	Customer contracts	Other	2008 Total R000
Cost			
Transfer 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
Closing balance	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 businesses. The costs attributable to these assets have been determined by external valuation specialists. All intangible assets are tested for impairment annually in accordance with the group's accounting policies (note 1.5).

	2009 R000	2008 R000
15 Inventories		
Raw materials and components	**19 956**	22 681
Work in progress	**20 715**	37 119
Finished goods	**3 590**	18 032
Merchandise	**552 689**	702 046
	596 950	779 878
Cost of inventory recognised as an expense in cost of sales	**1 422 441**	1 634 712
Inventory that is expected to be sold after more than 12 months	**112 000**	112 000
Write-down of inventory to net realisable value and losses of inventory	**6 153**	5 526

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.

	2009 R000	2008 R000
16 Accounts receivable		
Trade receivables	**347 766**	467 503
Less: Allowance for doubtful receivables	**(12 234)**	(14 179)
Other receivables and prepayments	**20 391**	34 886
Fair value of forward exchange contracts		19 203
	355 923	507 413
Per category:		
Loans and receivables	**355 923**	488 210
Derivatives used for hedging		19 203
	355 923	507 413

	2009 R000	2008 R000
16 Accounts receivable (continued)		
Allowance for doubtful receivables		
Opening balance	**14 179**	10 307
Additional allowance charged to profit or loss	**4 691**	9 737
Allowance reversed to profit or loss	**(2 622)**	(828)
Allowance utilised	**(4 014)**	(5 127)
Acquisitions		10
Exchange adjustments		80
	12 234	14 179
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 R73,2 million (2008: R83.5 million) were past due but not impaired, being customers of whom there is no recent history of default and are aged as follows:		
Less than 30 days since date due	**36 056**	51 724
Between 31 and 60 days	**18 649**	17 504
Between 61 and 90 days	**8 853**	9 323
More than 90 days	**9 639**	4 919
	73 197	83 470
17 Shareholders' equity		
17.1 Authorised share capital		
40 000 000 (2008: 40 000 000) ordinary shares of 10 cents each	**4 000**	4 000
17.2 Issued share capital		
33 747 779 (2008: 33 430 774) ordinary shares	**3 375**	3 343
Less: 2 507 828 (2008: 2 507 828) ordinary shares held by subsidiary company - 7,4%	**(251)**	(251)
Net 31 239 951 (2008: 30 922 946) ordinary shares	**3 124**	3 092
17.3 Unissued shares		
2 619 000 (2008: 2 528 000) unissued shares have been made available to the employee share incentive scheme. (See note 17.5)		
17.4 Retained income		
Income retained in:		
Company	**217 600**	191 769
Subsidiary companies	**828 985**	731 387
	1 046 585	923 156

17.5 Employee share-based remuneration schemes

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

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

	Number of shares (000)	
	2009	**2008**
Shares issued within the last 10 years in terms of the schemes		
Balance at beginning of year	**3 623**	3 462
Less: shares issued in 1999 that can be re-issued from 30 November 2009	**(349)**	(8)
Add: shares issued in current year	**317**	169
Balance at end of year	**3 591**	3 623
Options granted and deferred delivery shares not yet taken up in the share incentive scheme	**409**	726
Shares required to meet obligations in terms of the share appreciation bonus scheme*	**398**	195
Shares available to be granted in terms of both schemes in the future	**1 812**	1 607
Total specifically authorised to be issued in terms of all schemes - 18,4% of issued shares	**6 210**	6 151

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

17 Shareholders' equity (continued)

17.5 Employee share-based remuneration 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)	
	2009	2008	**2009**	2008
Rights to shares not taken up at beginning of the year	**2 403**	2 411	**726**	896
Shares delivered during the year	**2 435**	2 445	**(317)**	(169)
Forfeited on resignation during the year				(1)
Rights to shares not taken up at end of the year	**2 379**	2 403	**409**	726

These shares are all available to be taken up.

The following shares were taken up during the year:

	Average share price in cents	Weighted average subscription price in cents	Number of shares (000)
March	**4 347**	**2 460**	**43**
May	**4 775**	**2 460**	**22**
July	**5 684**	**2 460**	**136**
August	**5 650**	**2 460**	**28**
September	**6 024**	**2 460**	**55**
October	**5 732**	**2 206**	**16**
November	**6 339**	**2 219**	**17**
		2 435	**317**

Share appreciation bonus scheme

The following share appreciation bonus rights have been granted in terms of the scheme that was approved by shareholders in May 2006:

	Weighted average strike price in cents		Number of rights (000)	
	2009	2008	**2009**	2008
Rights not taken up at beginning of year	**5 119**	4 028	**1 324**	798
Rights granted during the year	**5 050**	6 776	**579**	526
Forfeited during the year	**(5 775)**		**(172)**	
Rights exercised during the year	**(3 975)**		**(79)**	
Rights not taken up at end of year	**5 081**	5 119	**1 652**	1 324
These rights may first be exercised in the financial years ending:				
November 2009	**3 975**	4 100	**204**	326
November 2010	**4 157**	4 300	**258**	337
November 2011	**5 207**	5 300	**390**	391
November 2012	**5 769**	7 100	**323**	148
November 2013	**5 743**	7 000	**299**	122
November 2014	**5 050**		**178**	
			1 652	1 324

17 Shareholders' equity (continued)

17.5 Employee share-based remuneration schemes (continued)

Share appreciation bonus scheme (continued)

Participants in this scheme will receive a bonus, settled in Hudaco shares at market price, equal to the appreciation in the Hudaco share price between the date of grant (strike price) and the date of exercise, multiplied by the number of 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

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	Grant 5
Date of grant	17 Mar 2004	7 Jun 2006	1 Aug 2007	15 Feb 2008	18 Nov 2008	1 July 2009
Number of rights granted	1 309 000	793 500	10 000	404 767	120 800	578 500
Rights forfeited		(72 500)	(10 000)	(74 667)	(20 000)	
Rights taken up	(900 000)	(78 833)				
Rights still outstanding	409 000	642 167		330 100	100 800	578 500
Vested rights	409 000	203 501				
Unvested rights		438 666		330 100	100 800	578 500
Exercise price (R) - strike price	24,60	39,75 (1)	81,70 (1)	71,45	55,40	50,50
Share price at grant date (R)	24,60	47,50	80,00	72,00	55,50	55,00
Expected volatility (%)	20	25	25	25	25	28
Expected dividend yield (%)	5,0	3,8	3,9	4,0	4,0	4,0
Risk-free rate (%)	10,2	8,2	9,1	8,6	8,7	8,6
Vesting period (years)	3 to 5	3 to 5	3 to 5	3 to 5	2 to 5	3 to 5
Estimated fair value per right (R) (2)	8,18	13,83	30,00	19,83	10,77	16,71

(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.*

	2009 R000	2008 R000
Employee share-based payment expense included in operating profit		
Expense arising from share incentive scheme	**545**	1 901
Expense arising from share appreciation bonus plan	**4 925**	4 589
Total share-based payment expense	**5 470**	6 490

17.6 Non-distributable reserves

R000	Special reserve account	Cash flow hedging reserve	Foreign exchange translation reserve	Equity compen-sation reserves	Other shared-based payments	Total
Balance at 30 November 2007	332	1 686	7 131	10 756	37 326	**57 231**
Increase in equity compensation reserves				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**
Balance at 30 November 2008	332	(299)		17 246	37 326	**54 605**
Increase in equity compensation reserves				4 460		**4 460**
Movement in fair value of cash flow hedges		(562)				**(562)**
Balance at 30 November 2009	332	(861)		21 706	37 326	**58 503**
Less: shares held by subsidiary company	(41)					**(41)**
Net balance at 30 November 2009	291	(861)		21 706	37 326	**58 462**

For the year ended 30 November 2009

18 Subordinated debenture

Unlisted, subordinated debenture issued by Hudaco Trading (Pty) Ltd, a subsidiary, on 1 August 2007. The debenture carries a fixed interest rate of 10,7% nominal annual compounded quarterly. Interest is paid quarterly in arrears and the capital is repayable in full on 31 August 2017. The debenture is secured by a pledge of the group's investment in preference shares (see note 12).

	2009 R000	2008 R000
19 Deferred taxation		
19.1 Deferred taxation comprises temporary differences arising from:		
Accelerated capital allowances	**(9 135)**	(8 891)
Intangible assets	**(4 938)**	(7 004)
Calculated tax losses	**10 103**	
Doubtful debt allowances	**2 573**	2 734
Leave pay accruals	**5 890**	5 804
Other	**7 148**	2 748
Net deferred taxation asset (liability)	**11 641**	(4 609)
19.2 Movement for the year		
Balance at beginning of year	**(4 609)**	1 503
Transferred from goodwill		(678)
Arising on acquisitions during the year		(8 928)
Effect of rate change		(166)
Raised during the year	**16 250**	3 660
Balance at end of year	**11 641**	(4 609)

20 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.

	2009 R000	2008 R000
21 Accounts payable		
Trade payables	**213 889**	355 712
Fair value of forward exchange contracts	**1 080**	
Other payables and amounts due	**110 915**	132 495
	325 884	488 207
Included in other payables and amounts due are payroll and other accruals.		
Per category:		
Measured at amortised cost	**324 804**	488 207
Derivatives used for hedging	**1 080**	
	325 884	488 207
22 Dividends		
Dividend number 44 of 270 cents per share declared on 29 January 2009 The record date was 13 March 2009 and the dividend was paid on 16 March 2009	**90 286**	64 873
Dividend number 45 of 115 cents per share declared on 25 June 2009 The record date was 14 August 2009 and the dividend was paid on 17 August 2009	**38 689**	43 455
Dividends paid to subsidiary company	**(9 655)**	(8 150)
	119 320	100 178

On 28 January 2010 the directors declared dividend number 46 of 235 cents per share, being the final dividend in respect of 2009. The record date will be 12 March 2010 and the dividend will be paid on 15 March 2010. This dividend has not been included as a liability in these financial statements.

	2009 R000	2008 R000
23 Notes to cash flow statement		
23.1 Decrease (increase) in working capital		
Decrease (increase) in inventories	**176 489**	(174 419)
Decrease (increase) in accounts receivable	**151 990**	(78 477)
(Decrease) increase in accounts payable	**(162 323)**	20 117
Translation gain on working capital in foreign operation		(2 063)
	166 156	(234 842)
23.2 Finance costs		
Finance costs per income statement	**(234 795)**	(252 855)
Imputed on amounts due to vendors of businesses acquired		2 261
	(234 795)	(250 594)
23.3 Taxation paid		
Amounts owed at beginning of the year	**(33 193)**	(30 094)
Current tax charge	**(38 294)**	(55 001)
Prior year under provision	**(332)**	(1 214)
Secondary tax on companies	**(1 164)**	(1 884)
Foreign tax charge	**(312)**	(745)
Capital gains tax	**(9)**	(203)
Amounts owed at end of the year	**10 117**	33 193
	(63 187)	(55 948)
23.4 Discontinuation of business		
Plant and equipment	**220**	349
Inventories	**6 439**	9 538
Accounts receivable		7 975
Accounts payable		(6 399)
Net operating assets disposed	**6 659**	11 463
Surplus (loss) on disposal of operating assets	**3 065**	(9 802)
Costs to relocate remainder of business	**(1 926)**	
Balance receivable from acquirer	**(500)**	
Net cash flow from business discontinued	**7 298**	1 661
23.5 Dividends and interest received		
Dividends	**202 055**	200 404
Interest	**4 959**	12 450
Reversal of interest imputed on amounts due to vendors of businesses acquired	**(3 858)**	
	203 156	212 854
23.6 Dividends paid		
To Hudaco shareholders	**(119 320)**	(201 676)
To minorities	**(10 090)**	(11 945)
	(129 410)	(213 621)
23.7 Cash flow per share		
Cash flow from operations	**200 701**	(91 135)
Dividends and interests received	**203 156**	212 854
Minority participation	**(27 294)**	(50 055)
Cash flow from operations attributable to ordinary shareholders	**376 563**	71 664
Cash flow per share (cents)	**1 214**	232

For the year ended 30 November 2009

	2009 R000	2008 R000

24 Commitments and contingencies

24.1 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.

	2009 R000	2008 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	**39 425**	34 870
In second to fifth years	**63 590**	63 742
	103 015	98 612

24.2 Property, plant and equipment

The group has budgeted to spend R93 million to acquire property, plant and equipment in 2010, R22 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 balances.

24.3 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 Financial Services Board (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. The appeal was heard on 4 May 2009 and judgement is awaited. 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.

	2009 R000	2008 R000

25 Financial instruments

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

25.1 Summary of financial instruments

25.1.1 Carrying value of financial instruments

	2009 R000	2008 R000
Financial assets by class - at carrying value:		
Investment in preference shares	**2 180 966**	2 180 966
Trade receivables	**335 532**	453 324
Other receivables and prepayments	**20 391**	34 886
Bank deposits and balances	**335 161**	134 568
Fair value of forward exchange contracts		19 203
	2 872 050	2 822 947
Financial assets by category:		
Held to maturity financial assets	**2 180 966**	2 180 966
Loans and receivables	**691 084**	622 778
Derivatives used for hedging		19 203
	2 872 050	2 822 947
Financial liabilities by class - at carrying value:		
Subordinated debenture	**2 180 966**	2 180 966
Amounts due to vendors of businesses acquired	**5 041**	24 361
Trade payables	**213 889**	355 712
Other payables	**110 915**	132 495
Amounts due to bankers		65 197
Fair value of forward exchange contracts	**1 080**	
	2 511 891	2 758 731
Financial liabilities by category:		
Measured at amortised cost	**2 510 811**	2 758 731
Derivatives used for hedging	**1 080**	
	2 511 891	2 758 731

25.1.2 Fair value of financial instruments

	2009 R000	2008 R000
Financial assets by class - at fair value:		
Investment in preference shares - including related put option	**2 222 237**	2 122 924
Trade receivables	**335 532**	453 324
Other receivables	**20 391**	34 886
Fair value of forward exchange contracts		19 203
Bank deposits and balances	**335 161**	134 568
	2 913 321	2 764 905
Financial liabilities by class - at fair value:		
Subordinated debenture	**1 911 966**	1 949 255
Amounts due to vendors of businesses acquired	**5 041**	24 361
Trade payables	**213 889**	355 712
Other payables	**110 915**	132 495
Amounts due to bankers		65 197
Fair value of forward exchange contracts	**1 080**	
	2 242 891	2 527 020

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.

25 Financial instruments (continued)

25.2 Market risk

25.2.1 Foreign currency risk

i) Trade commitments

The group imports approximately 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 20% and 30%) of orders placed but not yet shipped. Order lead times vary between a few days and 12 months. The objective is to have forward cover in place well before goods are shipped.

Cash flow hedges - at 30 November 2009 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	11,69	125 053	11,84	10 566
US Dollar	7,48	2 610	7,57	19 763
Pound Sterling	12,28	517	13,00	6 721
Euro	11,22	1 676	11,45	19 196
Total cost of contracts				56 246
Fair value - Rand equivalent of the above contracts at year end spot rates				55 385
Loss recognised directly in equity on import orders (See note 17.6)				(861)

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 R4,1 million (2008: R4,9 million), of which R3,6 million (2008: R4,2 million) will impact profit or loss after taxation.

	2009 R000	2008 R000
Net foreign currency monetary assets		
Functional currency of group operation	**Pound Sterling**	Pound Sterling
Japanese Yen	**9 672**	11 242
US Dollar	**8 752**	11 501
Euro	**9 385**	10 435
	27 809	33 178

25 Financial instruments (continued)

25.2.2 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 %	2009 R000	2008 R000
Subordinated debenture	2017	10,7	**2 180 966**	2 180 966
Amounts due to vendors of businesses acquired	2011	11,5	**5 041**	17 686

25.3 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:

	2009 R000	2008 R000
Investment in preference shares	**2 180 966**	2 180 966
Trade receivables	**335 532**	453 324
Other receivables and prepayments	**20 391**	34 886
Bank deposits and balances	**335 161**	134 568
Fair value and forward exchange contracts		19 203
	2 872 050	2 822 947

25.4 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 2009 were R585 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 2009 the group's banking facilities substantially exceeded its forecast requirements for the forthcoming year.

25 Financial instruments (continued)

25.4 Liquidity risk (continued)

The maturity profile of financial liabilities is as follows:

	Total owing	Repayable during the year ending 30 November		
R000	2009	2010	2011 to 2014	2015 onwards
Subordinated debenture - repayable in full in 2017	**2 180 966**			2 180 966
Amounts due to vendors of businesses acquired	**5 041**		5 041	
Trade payables	**213 889**	213 889		
Other payables	**110 915**	110 915		
Fair value of forward exchange contracts	**1 080**	1 080		

	2009 R000	2008 R000
25.5 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 25.2.1)	**(861)**	(299)
Fair value hedges (on contracts of R119 million at year end spot rates)	**(219)**	19 502
	(1 080)	19 203

The book value of all non-derivative financial instruments approximates their fair value at 30 November 2009.

25.6 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.

26 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 R22 250 000 (2008: R20 421 000). 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 have submitted their initial surplus apportionment plans to the FSB for approval. 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.

27 Post-retirement medical costs

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

28 Directors' interests and remuneration

28.1 Interests of directors in the share capital of the company

The total direct interests of directors in the shares of the company are:

	Beneficial		Non-beneficial	
	2009	2008	**2009**	2008
RT Vice	**4 000**	4 000		
SJ Connelly	**175 634**	275 634	**1 680**	1 680
GE Gardiner#	**26 905**	90 000		
PL Campbell**				5 000
PM Poole**		210 942		
	206 539	580 576	**1 680**	6 680

 # These shares are subject to a call option exercisable in September 2011.
*** Retired during 2009.*

The directors held no indirect interests in the shares of the company. YKN Molefi holds 0,83% of the share capital of Hudaco Trading (Pty) Limited.

The shareholdings above have not changed between 30 November 2009 and the date of the notice of the annual general meeting which forms part of this annual report.

For the year ended 30 November 2009

28 Directors' interests and remuneration (continued)

28.2 Directors' interests in share incentive and share appreciation bonus schemes

Share incentive scheme

The directors have entered into the following deferred delivery agreements:

2009	Outstanding shares beginning of year	Strike price	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	
GR Dunford[2]	10 000	24,60				10 000	17 Mar '04	16 Mar '14	
GE Gardiner	100 000	24,60	50 000	Sept '09	63,13	50 000	17 Mar '04	16 Mar '14	1 927
PM Poole[3]	100 000	24,60	100 000	July '09	58,56				3 396
Total	**343 333**		**150 000**			**193 333**			**5 323**
2008									
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			

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.*
[2] *Appointed in January 2009.*
[3] *Retired in June 2009.*

28 Directors' interests and remuneration (continued)

28.2 Directors' interests 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:

2009	Outstanding rights beginning of year	Strike price	Granted during the year	Taken up during the year	Forfeited on retire-ment	Outstanding rights end of year	Date granted	Number of tranches	Date benefit to be determined	Gains on rights taken up[1] R000
SJ Connelly	275 000		155 000			430 000				
	175 000	39,75				175 000	06 July '06	3	July '09-July '13	
	100 000	71,45				100 000	15 Feb '08	3	Feb '11-Feb '15	
		50,50	155 000			155 000	01 July '09	3	July'12-July '16	
CV Amoils		50,50	65 000			65 000	01 July '09	3	July'12-July '16	
GR Dunford[2]	85 000		45 000			130 000				
	65 000	39,75				65 000	06 July '06	3	July '09-July '13	
	20 000	71,45				20 000	15 Feb '08	3	Feb '11-Feb '15	
		50,50	45 000			45 000	03 July '09	3	July'12-July '16	
GE Gardiner	71 333					71 333				
	20 000	39,75				20 000	06 July '06	1	July '09-July '11	
	11 333	71,45				11 333	15 Feb '08	1	Feb '11-July '12	
	40 000	55,40				40 000	18 Nov '08	2	July '10-July '12	
PM Poole[3]	82 667			20 000	62 667					382
	40 000	39,75		20 000	20 000					382
	22 667	71,45			22 667					
	20 000	55,40			20 000					
Total	**514 000**		**265 000**	**20 000**	**62 667**	**696 333**				**382**
2008										
SJ Connelly	175 000		100 000			275 000				
	175 000	39,75				175 000	06 July '06	3	July '09-July '13	
		71,45	100 000			100 000	15 Feb '08	3	Feb '11-Feb '15	
GE Gardiner	20 000		51 333			71 333				
	20 000	39,75				20 000	06 July '06	1	July '09-July '11	
		71,45	11 333			11 333	15 Feb '08	1	Feb '11-July '12	
		55,40	40 000			40 000	18 Nov '08	2	July '10-July '12	
PM Poole	40 000		42 667			82 667				
	40 000	39,75				40 000	06 July '06	2	July '09-July '12	
		71,45	22 667			22 667	15 Feb '08	2	Feb '11-Aug '13	
		55,40	20 000			20 000	18 Nov '08	1	July '10-July '12	
Total	235 000		194 000			429 000				

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 rights granted. Tranche 1 vests three years after grant, tranche 2 vests four years after grant and tranche 3 vests five years after grant. Each tranche must be taken up within two years of vesting. The number of rights that may be taken up in each tranche is subject to a performance test based on the growth in Hudaco's HEPS during the period, of CPIX plus 5%.

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

[2] *Appointed in January 2009.*

[3] *Retired in June 2009.*

For the year ended 30 November 2009

28 Directors' interests and remuneration (continued)
28.3 Directors' emoluments

R000	For services as director	Fixed remu-neration	Retirement fund con-tributions	Other benefits	Performance-related remuneration	Total before share-based payments	Share-based payments[1]	Total remu-neration
2009								
Non-executive directors	970					**970**		**970**
RT Vice	300					**300**		**300**
PL Campbell[2]	52					**52**		**52**
JB Gibbon	200					**200**		**200**
YKN Molefi	138					**138**		**138**
N Molope [3]	131					**131**		**131**
SG Morris [3]	149					**149**		**149**
Executive directors		6 326	765	911	4 833	**12 835**	3 251	**16 086**
SJ Connelly		2 550	301	268	2 460	**5 579**	1 343	**6 922**
CV Amoils[4]		606	72	82	498	**1 258**	115	**1 373**
GR Dunford[3]		965	125	123	569	**1 782**	370	**2 152**
GE Gardiner		1 411	171	175	704	**2 461**	691	**3 152**
PM Poole[5]		794	96	263	602	**1 755**	732	**2 487**
Total 2009	**970**	**6 326**	**765**	**911**	**4 833**	**13 805**	**3 251**	**17 056**
2008								
Non-executive directors	582					**582**		**582**
PL Campbell	158					**158**		**158**
JB Gibbon	137					**137**		**137**
YKN Molefi	104					**104**		**104**
RT Vice	183					**183**		**183**
Executive directors		4 894	587	552	7 584	**13 617**	2 147	**15 764**
SJ Connelly		2 323	275	255	3 793	**6 646**	1 284	**7 930**
GE Gardiner		1 285	156	145	1 688	**3 274**	387	**3 661**
PM Poole		1 286	156	152	2 103	**3 697**	476	**4 173**
Total 2008	582	4 894	587	552	7 584	**14 199**	2 147	**16 346**

[1] The fair value of options and share appreciation bonus rights granted is the annual expense in terms of IFRS 2.
[2] Retired in March 2009.
[3] Appointed in January 2009.
[4] Appointed in July 2009.
[5] Retired in June 2009.

29 Related party transactions

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

Hudaco has no holding company, nor is there a major shareholder that has a significant influence over the group. Group companies have entered into transactions in the ordinary course of business with certain financial institutions that are also shareholders, or their affiliates. In the main, these transactions relate to property leases and financial services. All such transactions have been 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 81.

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 includes partners and children.

	2009 R000	2008 R000
Compensation of key management personnel		
Short-term employee benefits	**23 003**	26 758
Share-based payments[1]	**4 850**	4 623
	27 853	31 381

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

Directors

Details of directors' emoluments, share-based payments and shareholdings are set out in note 28.

	2009 R000	2008 R000
Interests in contracts and transactions with key management personnel		
Goods sold to key management at staff prices	**5**	12
Goods bought from companies controlled by key management	**192**	493
Goods sold to companies controlled by key management	**203**	61

GR Dunford, an alternate director as well as a member of the executive committee, is a 90% shareholder of the landlord of premises occupied by Bauer and a Powermite branch. Rental paid to the company in respect of Bauer amounted to R849 800 (2008: R780 600). This lease expired on 31 December 2009 and was extended for a further year. Rental paid in respect of the Powermite branch amounted to R269 892 (2008: R68 040). This lease is due to expire on 28 February 2011.

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		Powered products		Security equipment	
R million	**2009**	2008	**2009**	2008	**2009**	2008	**2009**	2008	**2009**	2008
Income statement										
Turnover	**2 420**	2 766	**(1)**	(1)	**1 593**	1 727	**559**	673	**269**	367
- Ongoing operations	**2 420**	2 742	**(1)**	(1)	**1 593**	1 727	**559**	673	**269**	343
- Operations discontinued in 2008		24								24
EBITDA	**329**	442	**(37)**	(18)	**218**	262	**105**	147	**43**	51
Depreciation less recoupments	**18**	12			**13**	8	**3**	2	**2**	2
Amortisation of intangible assets	**4**	3			**4**	3				
Operating profit	**307**	427	**(37)**	(18)	**201**	251	**102**	145	**41**	49
- Ongoing operations	**307**	433	**(37)**	(18)	**201**	251	**102**	145	**41**	55
- Operations discontinued in 2008		(6)								(6)
Net surplus on disposal of businesses	**1**				**1**					
Impairment of goodwill and intangible assets	**(8)**				**(8)**					
Impairment of assets in operations discontinued in 2008		(2)								(2)
Profit before interest and dividends received	**300**	425	**(37)**	(18)	**194**	251	**102**	145	**41**	47
Balance sheet										
Property, plant and equipment	**91**	92	**1**		**63**	66	**20**	18	**7**	8
Goodwill	**117**	131	**(4)**		**106**	118			**15**	13
Intangible assets	**18**	25			**18**	25				
Deferred taxation	**11**	(5)	**12**	1	**(4)**	(8)	**3**	2		
Inventories	**597**	780			**436**	542	**122**	178	**39**	60
Accounts receivable	**356**	507	**3**	1	**241**	328	**78**	127	**34**	51
Accounts payable	**(326)**	(488)	**(2)**	(9)	**(199)**	(272)	**(86)**	(157)	**(39)**	(50)
Taxation	**(10)**	(33)	**39**	43	**(34)**	(41)	**(10)**	(26)	**(5)**	(9)
Net operating assets	**854**	1 009	**49**	36	**627**	758	**127**	142	**51**	73
Additional information										
Average net operating assets	**1 015**	923	**18**	9	**768**	696	**159**	138	**70**	80
Capital expenditure	**20**	25			**14**	15	**5**	7	**1**	3
Operating profit margin (%)	**12,7**	15,4			**12,6**	14,5	**18,2**	21,5	**15,2**	13,4
Return on average net operating assets (%)	**30,2**	46,2			**26,2**	36,1	**64,2**	105,3	**58,6**	61,1
Number of employees	**2 310**	2 378	**23**	22	**1 717**	1 791	**374**	369	**196**	196

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

	Notes	2009 R000	2008 R000

Hudaco Industries Limited

Balance sheet
at 30 November 2009

	Notes	2009 R000	2008 R000
Assets			
Non-current assets			
Interest in subsidiary companies	30.1	**262 758**	232 675
Current assets		**1 309**	386
Accounts receivable		**655**	368
Bank balances		**654**	18
Total assets		**264 067**	233 061
Equity and liabilities			
Shareholders' equity		**263 230**	229 682
Current liabilities			
Accounts payable and taxation		**837**	3 379
Total equity and liabilities		**264 067**	233 061

Income statement
for the year ended 30 November 2009

	Notes	2009 R000	2008 R000
Dividends received from subsidiaries		**156 948**	174 636
Interest received			6
Operating costs		**(1 906)**	(1 392)
Profit before taxation		**155 042**	173 250
Taxation - South African normal tax		**236**	2 599
Profit after taxation		**154 806**	170 651

Statement of changes in equity

R000	Share capital	Share premium	Special reserve account*	Retained income	Shareholders' equity
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
Attributable profit for the year				154 806	154 806
Issue of 317 005 shares	32	7 685			7 717
Dividends to shareholders				(119 320)	(119 320)
Dividends to subsidiary company				(9 655)	(9 655)
Balance at 30 November 2009	**3 375**	**41 923**	**332**	**217 600**	**263 230**

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

Cash flow statement
for the year ended 30 November 2009

	2009 R000	2008 R000
Cash generated from operating activities		
Dividends received	**156 948**	174 636
Operating costs paid	**(1 906)**	(1 392)
Decrease (increase) in working capital	**(545)**	260
Cash generated from operating activities	**154 497**	173 504
Finance revenue		6
Taxation paid	**(2 520)**	(431)
Cash flow from operations	**151 977**	173 079
Dividends	**(128 975)**	(218 102)
Net cash retained (applied)	**23 002**	(45 023)
Cash applied to investment activities		
(Increase) decrease in loans to subsidiary companies	**(30 083)**	40 874
Net cash applied	**(7 081)**	(4 149)
Cash flow from financing activities		
Increase in shareholder funding	**7 717**	4 138
(Increase) decrease in bank balances	**(636)**	11
Net financing raised	**7 081**	4 149

30 Notes to the company financial statements

30.1 Interest in subsidiary companies

	2009 R000	2008 R000
Shares at cost less amounts written off	**134 956**	134 956
Net loans to subsidiaries	**127 802**	97 719
Loans to subsidiaries	**128 105**	97 799
Loans from subsidiaries	**(303)**	(80)
	262 758	232 675

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.

30.2 Auditors' remuneration

	2009 R000	2008 R000
Audit fees for the current year	**90**	80

30.3 Contingent liability

The company has guaranteed the senior banking facilities of Hudaco Trading (Pty) Ltd. The maximum exposure in this regard is approximately R450 million and the exposure is R20 million at the year end.

At 30 November 2009

R unless indicated otherwise	Issued share capital 2009	Group's effective interest 2009 %	Group's effective interest 2008 %	Interest of holding company: Book value of shares 2009 R000	Book value of shares 2008 R000	Loans owing by/(to) 2009 R000	Loans owing by/(to) 2008 R000
Principal subsidiaries							
Hudaco Trading (Pty) Ltd	**2 000**	**85 (1)**	85 (1)	**2**	2	**(303)**	(80)
Abes Technoseal*							
Ambro Sales*							
Ampco*							
Angus Hawken*							
Astore Africa*							
Bauer Geared Motors*							
Bearings International*							
Belting Supply Services*							
Bosworth*							
Elvey Security Technologies*							
Ernest Lowe*							
Powermite*							
Rutherford*							
Varispeed*							
Hudaco Investment Company Ltd	**26 160**	**100**	100	**48 158**	48 158	**127 992**	97 686
Barbara Road Investments (Pty) Ltd	**100**	**100**	100				
DD Power Holdings (Pty) Ltd	**300 000**	**70 (2)**	70 (2)				
DD Power (Pty) Ltd	**7 450 000**	**70**	70				
Quadrant Investments 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	**127 802**	97 719

(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.

** Denotes an operating division.*

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

Shareholder analysis

At 30 November 2009

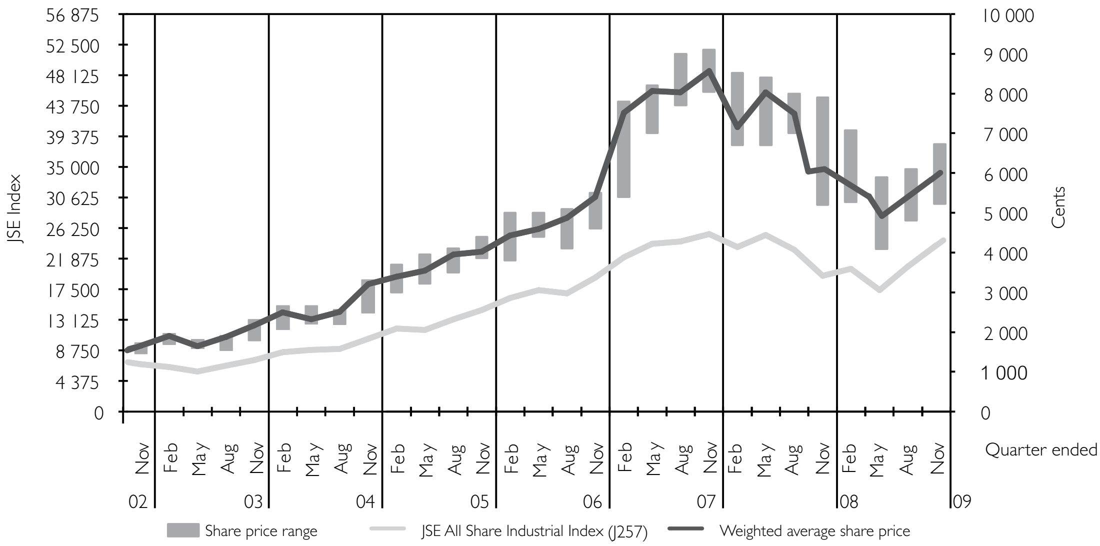
Shareholder analysis	Number of shares (000) 2009	% issued shares 2009	Number of share-holders
Portfolio size			
1 - 1 000	796	2,5	1 895
1 001 - 5 000	1 832	5,9	716
5 001 - 10 000	1 148	3,7	153
10 001 - 100 000	5 787	18,5	185
Over 100 000	21 677	69,4	56
Total[1]	**31 240**	**100**	**3 005**
Category			
Individuals	3 650	11,7	2 044
Financial institutions and pension funds	15 106	48,4	158
Banks and nominee companies	4 022	12,9	527
Other corporate bodies	8 462	27,0	276
Total[1]	**31 240**	**100**	**3 005**
Shareholder spread			
Public	26 824	85,9	2 976
Non-public	4 416	14,1	29
Directors and associates[2]	590	1,9	27
Strategic holdings (more than 10%)	3 808	12,2	1
Share trust	18	0,0	1
Total [1]	**31 240**	**100**	**3 005**
Major shareholders			
Beneficial shareholders holding more than 3%			
Government Employees Pension Fund	3 856	12,3	
Old Mutual Life Assurance Co SA	3 808	12,2	
Nedgroup Investments Rainmaker Fund	1 284	4,1	
Fund managers controlling more than 3%			
Old Mutual Investment Group (South Africa) (Pty) Limited	10 032	32,1	
STANLIB Asset Management Company Limited	2 125	6,8	
Abax Capital (Pty) Limited	1 748	5,6	
Peregrine Capital (Pty) Limited	1 591	5,1	
Foord Asset Management (Pty) Limited	1 170	3,7	

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

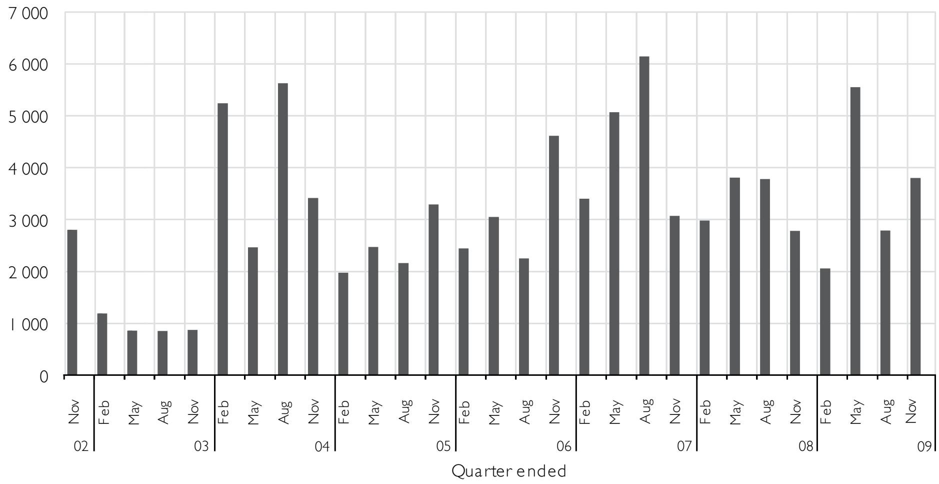
[2] *A list of the shareholdings of senior management is available, on request, from the group secretary.*

For the year ended 30 November 2009

Share price history



Volume traded on JSE (000)



JSE statistics

	2009	2008	2007	2006	2005	2004	2003
Market price (cents)	**6 600**	5 600	8 500	5 400	3 985	3 290	2 300
NAV per share (cents)*	**3 681**	3 282	2 623	2 429	2 056	1 720	1 563
Number of shares in issue (000)*	**31 240**	30 923	30 754	29 993	29 756	29 438	29 003
Market capitalisation (Rm)*	**2 062**	1 732	2 614	1 620	1 186	968	667
Price: earnings ratio (times)	**7,2**	8,1	14,3	12,4	10,2	8,6	6,4
All Share Industrial Index PE ratio (J257)	**15,9**	11,4	16,3	15,4	13,3	13,4	12,6
Dividend yield (%)	**5,8**	5.8	2,4	2,8	3,4	3,8	4,7
All Share Industrial Index dividend yield (J257) (%)	**2,2**	3,6	1,9	2,1	2,2	2,1	2,5
Annual trade in Hudaco shares							
Number of transactions recorded	**4 963**	4 966	4 967	3 081	2 919	3 076	992
Volume of shares traded (000)	**15 113**	13 355	17 682	12 362	9 923	16 744	3 793
% of issued shares traded*	**48**	43	54	41	33	57	13
Value of shares traded (R000)	**791 079**	973 776	1 389 609	584 747	369 207	412 704	68 566

** Excludes 2 507 823 shares repurchased by a subsidiary company.*

Shareholders' diary

Financial year end	30 November
Annual general meeting	26 March 2010
Reports and financial statements	
Preliminary report and final dividend announcement	28 January 2010
Annual financial statements (mailed to shareholders)	15 February 2010
Interim report and interim dividend announcement	Third week July 2010
Dividend payment details	
Payment of 2009 final dividend	15 March 2010
Payment of 2010 interim dividend	16 August 2010

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 25th annual general meeting of shareholders of Hudaco Industries Limited will be held at Hudaco Park, 190 Barbara Road, Elandsfontein, Gauteng at 11:00 on Friday, 26 March 2010, for the following purposes:

1 To receive, consider and adopt the annual financial statements for the year ended 30 November 2009.

2 To elect directors of the company, namely:

- Mr CV Amoils;
- Mr RT Vice; and
- Ms YKN Molefi

who, in the case of Mr CV Amoils' appointment is being ratified in terms of the articles of association by reason of having been appointed by the board subsequent to the last annual general meeting, and who in the case of Mr RT Vice and Ms YKN Molefi, retire by rotation in terms of the company's articles of association but, being eligible, offer themselves for re-election.

A brief curriculum vitae in respect of each director offering himself/herself for re-election is contained on pages 4 and 5 of this annual report.

3 To approve the remuneration of non-executive directors for the financial year ending 30 November 2010 on the following basis:

	Base fee	Attendance fee per normal meeting
Group		
Chairman of the board*	R265 000	R15 000
Board member	R80 000	R10 000
Audit and risk management committee		
Chairman of the committee	R70 000	R10 000
Committee member	R35 000	R5 000
Remuneration and nomination committee		
Committee member	R20 000	R5 000

** Includes membership of and the attendance fee for the remuneration and nomination committee.*

4 To re-appoint Grant Thornton as independent auditors of Hudaco and to note that the individual auditor who will undertake the audit for the financial year ending 30 November 2010 is Ms J Saayman.

As special business, to consider and if deemed fit, pass with or without modification the following resolutions:

5 **Special resolution - general authority to repurchase shares**
"RESOLVED THAT, Hudaco or any of its subsidiaries be and is hereby authorised, by way of a general approval, to acquire Hudaco ordinary shares issued by Hudaco, in terms of Sections 85 (2), 85 (3) and 89 of the Companies Act No. 61 of 1973, as amended ("the Companies Act") and in terms of the Listings Requirements of the JSE Limited (" JSE"), being that:

- any such acquisition of ordinary shares shall be effected through the order book operated by the JSE trading system and done without any prior understanding or arrangement between Hudaco and the counter-party;

- this general authority shall be valid until Hudaco's next annual general meeting, provided that it shall not extend beyond 15 (fifteen) months from the date of passing of this special resolution;

- an announcement will be published as soon as Hudaco or any of its subsidiaries has acquired ordinary shares constituting, on a cumulative basis, 3% of the number of ordinary shares in issue and for each 3% in aggregate of the initial number acquired thereafter, in compliance with Rule 11.27 of the JSE Listings Requirements;

- acquisitions of shares in aggregate in any one financial year may not exceed 10% of Hudaco's ordinary issued share capital as at the date of passing of this special resolution;

- ordinary shares may not be acquired at a price greater than 10% above the weighted average of the market value at which such ordinary shares are traded on the JSE as determined over the five business days immediately preceding the date of repurchase of such ordinary shares by Hudaco or any of its subsidiaries;

- Hudaco has been given authority by its articles of association;

- at any point in time, Hudaco may only appoint one agent to effect any repurchase on its behalf;

- Hudaco undertakes that it will not enter the market to repurchase Hudaco's securities until Hudaco's sponsor has provided written confirmation to the JSE regarding the adequacy of Hudaco's working capital in accordance with Schedule 25 of the JSE Listings Requirements;

- Hudaco remaining in compliance with the minimum shareholder spread requirements of the JSE Listings Requirements;

- Hudaco and/or its subsidiaries may not repurchase any shares during a prohibited period as defined by the JSE Listings Requirements unless a repurchase programme is in place, where the dates and quantities of shares to be traded during the prohibited period are fixed and full details of the programme have been detailed in an announcement over SENS prior to the commencement of the prohibited period; and

Before entering the market to effect the general repurchase, the directors, having considered the effects of the repurchase of the maximum number of ordinary shares in terms of the aforegoing general authority, will ensure that for a period of 12 (twelve) months after the date of the notice of annual general meeting:

- Hudaco and the group will be able, in the ordinary course of business, to pay its debts;

- the consolidated assets of Hudaco and the group, fairly valued in accordance with statements of International Financial Reporting Standards, will exceed the consolidated liabilities of Hudaco;

- Hudaco and the group's ordinary share capital, reserves and working capital will be adequate for ordinary business purposes."

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

- directors and management - pages 4 to 6

- major beneficial shareholders - page 82

- directors' interests in securities - pages 73 to 75

- share capital of the company - note 17 on page 63.

Litigation statement

In terms of section 11.26 of the JSE Listings Requirements, the directors, whose names appear on pages 4 and 5 of this annual report of which this notice forms part, are not aware of any legal or arbitration proceedings, including proceedings that are pending or threatened except for the contingent liabilities in note 24 that may have or have in the previous year had a material effect on Hudaco's financial position.

Directors' responsibility statement

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

Material changes

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

Reason and effect

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

6 Ordinary resolution - signature of documents

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

Voting and proxies

To record the votes more effectively and give effect to the intentions of shareholders, voting on all resolutions will be conducted by way of a poll. Any member entitled to attend and vote at 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 proxy is to be completed by only 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 depository 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 instructions 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

R Wolmarans
Group secretary

28 January 2010

Transfer Secretaries

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

Explanatory notes

1 Resolution 1 - adoption of Annual Financial Statements
At the annual general meeting, the directors must present the annual financial statements for the year ended 30 November 2009 to shareholders, together with the reports of the director and the auditors. These are contained within the annual report.

2 Resolution 2 - re-election of directors
In accordance with Hudaco's articles of association, one third of the directors are required to retire at each annual general meeting and may offer themselves for re-election. In addition, any person appointed to the board of directors since the previous annual general meeting is similarly required to retire and is eligible for re-election at the next annual general meeting. Mr CV Amoils retires from the board and Mr RT Vice and Ms YKN Molefi retire by rotation.

An abbreviated curriculum vitae in respect of each director proposed for re-election is contained on pages 4 and 5 of this annual report.

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

- Responsibly maintain a mixture of business skills and experience relevant to the company and balance the requirement of transformation, continuity and succession planning; and

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

In addition, the performance of the retiring directors had been formally evaluated. The process culminated in the board, on the recommendation of Hudaco's remuneration and nomination committee, considering whether the retiring directors should be recommended for re-election. Having considered the inputs from Hudaco's remuneration and nomination committee, the board recommends the re-election of retiring directors.

3 Resolution 3 - remuneration of non-executive directors
Shareholders are requested to approve the proposed fees payable to the company's non-executive directors with effect from 1 December 2009.

The resolution is recommended by the company's board of directors and represents a 9% increase compared to the previous year.

4 Resolution 4 - re-appointment of independent auditors
Grant Thornton has indicated its willingness to continue in office and resolution 4 proposes the re-appointment of the firm as the company's auditors.

At a Hudaco audit and risk management committee meeting held on 20 October 2009, the committee considered the independence of Grant Thornton in accordance with section 270A of the Corporate Laws Amendment Act.

The audit and risk management committee is satisfied that Grant Thornton is independent as contemplated by the rules of the International Federation of Accountants (IFAC) and nominates Grant Thornton and Ms Saayman for re-appointment as audit firm and individual auditor, respectively for the 2010 financial year.

Furthermore, the Hudaco audit and risk management committee has, in terms of paragraph 3.86 of the JSE Listings Requirements, satisfied itself that Grant Thornton and the individual auditor are accredited as such on the JSE Register of Auditors, in compliance with section 22 of the JSE Listings Requirements.

5 Special Resolution - general authority to repurchase shares
The effect of the special resolution and the reason therefor is to grant Hudaco or any of its subsidiaries a general approval for the acquisition by Hudaco or any of its subsidiaries of Hudaco's shares, which general approval shall be valid until the earlier of such next annual general meeting of Hudaco or its variation or revocation of such general authority by special resolution at any subsequent annual general meeting of Hudaco, provided that the general authority shall not extend beyond fifteen months from the date of the annual general meeting.

The number of shares to be acquired in terms of this general authority shall not exceed 10% of the Hudaco shares in issue at the date on which this resolution was passed.

The directors are of the opinion that it would be in the best interests of the company to extend such general authority and thereby allow the company or any of its subsidiaries to be in a position to repurchase the securities issued by the company through the order book of the JSE, should market conditions and the price justify such an action.

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")

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

To be received by no later than 11:00 on Thursday, 25 March 2010.

For use by members of Hudaco at the annual general meeting of Hudaco to be held on **Friday, 26 March 2010** at Hudaco Park, 190 Barbara Road, Elandsfontein, Gauteng ("the annual general meeting") at 11: 00.

I/We

of (address)

being the holder(s) 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 you wish to vote.

		Number of ordinary shares		
Resolution		**For**	**Against**	**Abstain**
1	To receive and adopt the annual financial statements			
2	To re-elect retiring directors:			
	2.1 CV Amoils			
	2.2 RT Vice			
	2.3 YKN Molefi			
3	To approve the remuneration of non-executive directors			
4	To approve the re-appointment of external auditors			
5	Special resolution giving general authority for the company to repurchase its own shares			
6	Authorise directors to give effect to resolutions			

Signed at on 2010

Signature(s)

assisted by me (where applicable)

Notes to the form of proxy

1 Members who have dematerialised their shares through a Central Securities Depositary Participant ("CSDP") or broker must either inform their CSDP or broker of their intention to attend the annual general meeting to provide them with the necessary authority to attend or provide the CSDP or broker with their voting instruction in terms of the custody agreement entered into between the beneficial owner and the CSDP or broker.

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

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

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

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

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

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

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

9 Where there are joint holders of ordinary shares:

a) Any one holder may sign the form of proxy;

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

10 Forms of proxy should be lodged with or posted to the transfer secretaries, Computershare Investor Services (Pty) Limited, 70 Marshall Street, Johannesburg, 2001 (P O Box 61051, Marshalltown 2107), so as to reach them by no later than Thursday 25 March 2010 at 11:00.

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

Hudaco Industries Limited

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

Registered and business office

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

Secretary

Reana Wolmarans
Contact details as above

Transfer secretaries

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

Auditors

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

Bankers

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

Sponsor

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

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 thermoplastic pipes 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 conveyor belting, industrial hose, fluid sealing and process control products	15 Fortune Road City Deep	Tel 011 610 5600 Fax 011 610 5700 E-mail info@belting.co.za E-mail enquiries@bepbestobell.co.za
	Bosworth	Manufacturer of conveyor drive pulleys, forgings and rollings	Cnr Vereeniging and 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 home@gbauer.co.za
	Powermite	Distributor of electrical cabling, plugs, sockets, electrical 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	4 Clovelly Business Park 342 Old Pretoria Main Rd Midrand	Tel 011 312 5252 Fax 011 312 5262 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, nuclear gauges 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, access control, related CCTV equipment 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

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