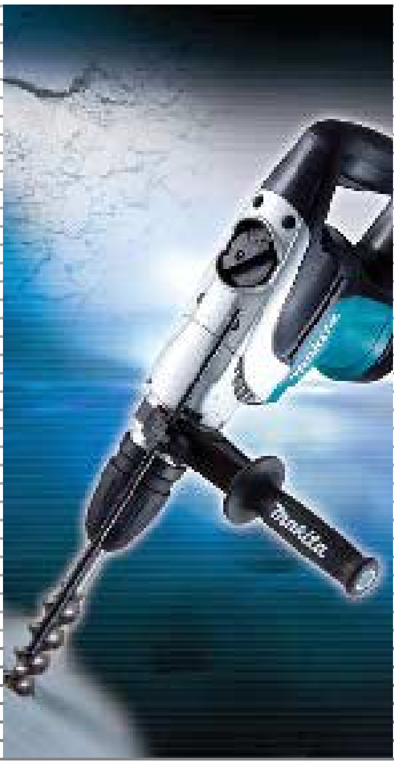
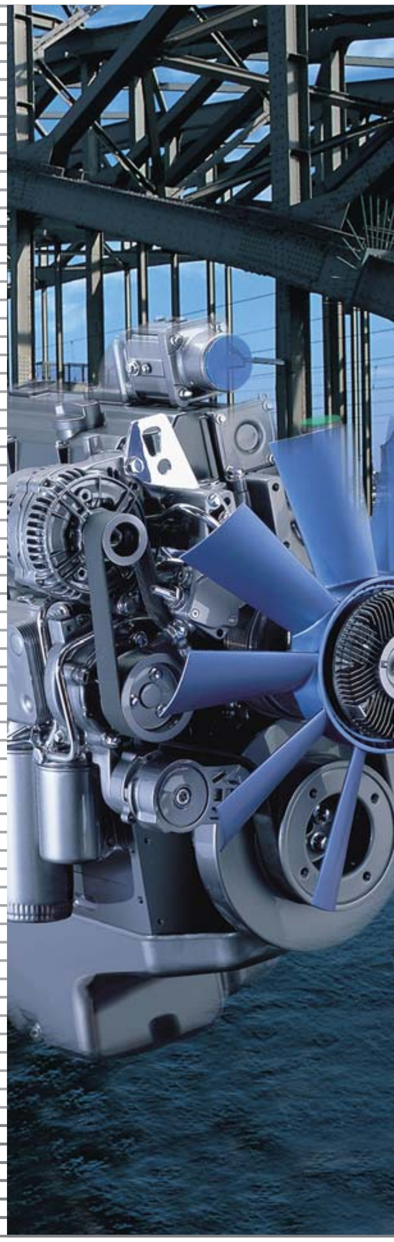




Value-added distribution – our core competency

Hudaco

Annual report 2010

Hudaco

Contents

Profile

Hudaco Industries is a South African group of companies specialising in the importation and distribution of high quality branded industrial products in the southern African region. Hudaco businesses serve markets that fall into two primary categories. The bearings, power transmission and diesel engine businesses supply engineering consumables mainly to mining and manufacturing customers whilst the security, power tool and automotive aftermarket businesses supply products into markets reliant on consumer spending.

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

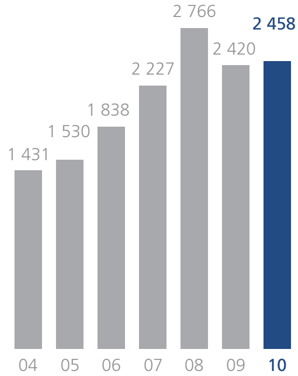
With the exception of Deutz Dieselpower, in which Deutz AG has a 30% share, all Hudaco businesses are 15% owned directly by BEE shareholders.

"Value-added distribution–our core competency"

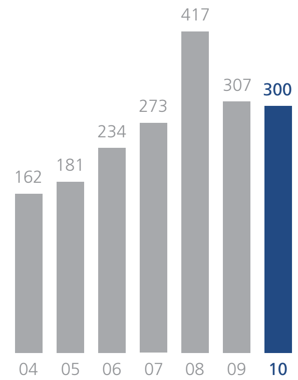
Results in brief

30 November	2010	2009	% change
Turnover (Rm)	2 458	2 420	2
Operating profit (Rm)	300	307	(2)
Headline earnings (Rm)	252	249	1
Attributable earnings (Rm)	234	243	(4)
Headline earnings per share (cents)	800	801	
Dividends per share (cents)	350	350	

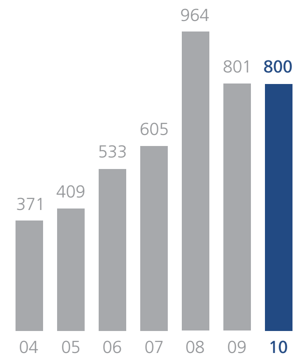
Turnover (Rm)



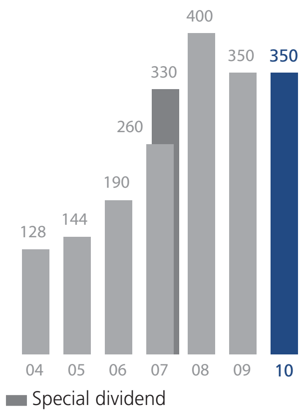
Operating profit (Rm)



Headline earnings per share (cents)



Dividends per share (cents)



Mission statement

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

- We aim to produce superior returns for our **shareholders** by building on the base of our existing businesses and by continuously looking for growth opportunities.
- We believe that we must continue to earn our strong market shares by offering 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 are committed to the transformation of **South Africa's society** and economy to redress inequities of the past.
- 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**.

Group at a glance

Engineering consumables

R million	2010	2009
Turnover	1 750	1 711
– Ongoing	1 685	1 711
– Acquired 2010	65	
Operating profit	206	225
– Ongoing	192	225
– Acquired 2010	14	
Average NOA*	728	764
Number of employees	1 853	1 736

Drivers

- GDP growth
- mining activity
- mining investment
- mining mechanisation
- manufacturing activity
- electricity usage management

Consumer related products

R million	2010	2009
Turnover	716	720
Operating profit	117	108
Average NOA*	182	233
Number of employees	540	551

Drivers

- consumer spending
- building activity
- employment levels
- vehicle sales

Group

R million	2010	2009
Turnover	2 458	2 420
– Ongoing	2 393	2 420
– Acquired 2010	65	
Operating profit	300	307
– Ongoing	286	307
– Acquired 2010	14	
Average NOA*	948	1 015
Number of employees	2 415	2 310

**Net operating assets*

Drivers

- exchange rates
- acquisitions

	Principal activities	Businesses
Bearings	The distribution of bearings, seals and transmission products.	Bearings International
Diesel engines and spares	The distribution of Deutz diesel engines and Deutz spares and the provision of service support.	Deutz Dieselpower
Power transmission	The distribution of geared motors, belting, chain, hydraulics, pneumatics, air and oil filters, industrial hose, conveyor drive pulleys, variable speed drives, special solid and hollow round steel, specialised thermoplastic pipes and fittings, electrical cabling, plugs and related products to the manufacturing, mining and agricultural aftermarkets.	Ambro Sales, Ampco, Astore Africa, Belting Supply Services, Bauer Geared Motors, Bosworth, Ernest Lowe, Filter & Hose Solutions, Powermite, Varispeed

	Principal activities	Businesses
Power tools	The distribution of power tools and marine engines.	Rutherford
Security equipment	The distribution of intruder detection, access control and related CCTV equipment and fibre-optics.	Elvey Security Technologies
Automotive	The distribution of clutch kits, automotive ignition leads and oil and hydraulic seals to the automotive and industrial aftermarket.	Abes Technoseal

Directorate

Non-executive directors

Royden Vice (63) 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 chairman of African Oxygen Limited (Afrox) and Afrox Healthcare from 1994 to 2001.

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

John Gibbon (70) BCom CA (SA)

Independent non-executive director and outgoing chairman of the audit and risk management committee

John is an independent 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.

John retired as chairman of the audit and risk management committee on 27 January 2011 and will retire from the board on 24 March 2011, having served thereon since 2001.

Nene Molefi (45) BSocSc

Independent non-executive director and member of the remuneration and nomination committee and the audit and risk management 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.

Nosipho Molope (46) BSc (Med Sc) BCompt (CA) SA

Independent non-executive director and member of the audit and risk management committee

Nosipho serves as non-executive director on the boards of Illovo Sugar Limited, Nampak Limited, Mobile Telephone Networks (Pty) Limited, MTN Service Provider (Pty) Limited and MTN Business Solutions (Pty) Limited. She also serves on several other boards of MTN's subsidiaries in West and East Africa.

She was previously the chief financial officer at the Financial Services Board until 2008.

Nosipho will be retiring from the board on 24 March 2011, having served thereon since 2009.

Stuart Morris (64) BCom (CA) SA

Independent non-executive director, incoming chairman of the audit and risk management committee and member of the remuneration and nomination committee

Stuart is a non-executive director of Group Five, Zurich Insurance (RSA), City Lodge, Rolex Watch (SA) and Mwana Africa plc, 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 Nedbank Group financial director from July 1999 until he retired in 2004.

Stuart joined the board in 2009 and becomes the chairman of the audit and risk management committee on 28 January 2011, replacing John Gibbon.

Executive directors

Stephen Connelly (59) ACMA

Group chief executive

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

Clifford Amoils (49) 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 in 2009.

Graham Gardiner (64)

Executive director: Acquisitions

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

He was CEO: Bearings and power transmission from 2001 until 2010 when he assumed responsibility for acquisitions.

Graham became a board member in 1988.

Graham Dunford (46) Dip: Mechanical Engineering

CEO: Bearings and power transmission

Graham joined Hudaco in 2001 when it purchased Bauer Geared Motors, where he was the managing director. He became CEO: Electrical power transmission in 2005, CEO: Power transmission in 2009 and CEO: Bearings and power transmission in 2010.

He became an executive director on 15 July 2010 after serving as an alternate director to Graham Gardiner since January 2009.

Executive committee

From left to right standing

Tony Patten (56)
CEO: Bearings International
28 years' service

Graham Dunford (46)
CEO: Bearings and power transmission
22 years' service

Clifford Amoils (49)
Group financial director
2 years' service

Ossie Carstens (45)
CEO: Deutz Dieselpower
2 years' service

Graham Gardiner (64)
Executive director: Acquisitions
40 years' service

From left to right sitting

Jack Edery (59)
CEO: Elvey Security Technologies
14 years' service

Reana Wolmarans (44)
Group secretary
2 years' service

Stephen Connelly (59)
Group chief executive
28 years' service

Bob Cameron-Smith (62)
CEO: Rutherford
37 years' service

Gilbert da Silva (63)
CEO: Mechanical power transmission
40 years' service

Service is with Hudaco and businesses acquired

Seven year review

	Prepared under IFRS					Prepared under SA GAAP	
R million	2010	2009	2008	2007	2006	2005	2004
Group statement of income							
Turnover	2 458	2 420	2 766	2 227	1 838	1 530	1 431
Operating profit	300	307	417	273	234	181	162
Net finance costs less dividends received	17	28	40	(5)	(7)	(4)	(6)
Profit before taxation	283	279	377	278	241	185	168
Taxation	26	24	57	83	76	59	54
Profit after taxation	257	255	320	195	165	126	114
Non-controlling interest	5	6	23	13	6	5	5
Headline earnings	252	249	297	182	159	121	109
Capital items	18	6	(10)	(1)	9	(1)	20
Attributable earnings	234	243	307	183	150	122	89
Shares in issue (000) (weighted average)	31 540	31 023	30 836	30 178	29 870	29 592	29 289
Earnings per share (cents)							
– headline	800	801	964	605	533	409	371
– basic	745	784	995	606	502	413	303
Dividends per share (cents)	350	350	400	260	190	144	128
Special dividend per share (cents)				330			
Group statement of financial position							
Property, plant and equipment	131	91	92	74	67	62	43
Goodwill	331	117	131	77	57	64	43
Intangible assets	34	18	25				
Deferred taxation	23	11	(5)	1	1	2	16
Inventories	663	597	780	544	452	375	285
Trade and other receivables	423	356	507	399	355	279	245
Trade and other payables	(420)	(326)	(488)	(435)	(382)	(296)	(268)
Taxation	(6)	(10)	(33)	(30)	(24)	(13)	(25)
Net operating assets	1 179	854	1 009	630	526	473	339
Investment in preference shares	2 181	2 181	2 181	2 181			
Net cash	262	335	69	317	238	187	207
Employment of capital	3 622	3 370	3 259	3 128	764	660	546
Interest of shareholders of the group	1 287	1 150	1 015	807	728	612	508
Non-controlling interest	27	34	40	29	22	24	26
Equity	1 314	1 184	1 055	836	750	636	534
Shareholders for special dividend				101			
Subordinated debenture	2 181	2 181	2 181	2 181			
Amounts due to vendors on acquisitions	127	5	23	10	14	24	12
Total capital employed	3 622	3 370	3 259	3 128	764	660	546
Group statement of cash flows							
Cash generated from trading	327	333	450	334	248	195	175
Decrease (increase) in working capital	12	166	(235)	(71)	(62)	(62)	36
Cash generated from operations	339	499	215	263	186	133	211
Finance costs	(234)	(235)	(249)	(81)			
Taxation paid	(49)	(63)	(56)	(81)	(65)	(63)	(63)
Net cash from operating activities	56	201	(90)	101	121	70	148
Investment in new operations	(184)	(7)	(140)	(35)	(11)	(47)	(11)
Investment in property, plant and equipment	(50)	(17)	(20)	(17)	(16)	(9)	(14)
Investment in preference shares				(2 181)			
Discontinuation of business		7					
Dividends and interest received	218	203	212	83	8	5	6
Net cash from investing activities	(16)	186	52	(2 150)	(19)	(51)	(19)
Proceeds from issue of shares	7	8	4	14	3	3	3
Subordinated debenture issued				2 181			
Dividends paid	(120)	(129)	(214)	(67)	(54)	(42)	(39)
Net cash from financing activities	(113)	(121)	(210)	2 128	(51)	(39)	(36)
Net (decrease) increase in cash and cash equivalents	(73)	266	(248)	79	51	(20)	93

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. 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 1970s Hubert Davies expanded its product offering and its branch network to cover the whole of South Africa and all countries of the subcontinent. In 1976 a strategic decision was made to specialise by product and activity 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 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

In 2007, as part of its empowerment initiative, the group sold 15% of all operating businesses, except Deutz Dieselpower, to BEE shareholders.

2010

Today the group employs over 2 400 people, its market capitalisation is over R2,5 billion and its shareholders include many of the blue chip players in the retirement investment industry.

Chairman's report

Firmer trading conditions as the 2010 financial year came to a close give us confidence that volume sales will increase again in 2011 . . . if the rand does not strengthen further we are optimistic that Hudaco will post an increase in earnings in 2011.

Royden Vice

Overview

As the South African economy settled down to normality after a very difficult and tumultuous 2009, this year turned out to be generally more positive for business.

The nation hosted a successful World Cup soccer tournament which did much to improve the national psyche and give foreigners a better, more realistic impression of our country. South Africa is increasingly regarded as an attractive investment destination in its own right as well as a springboard to a burgeoning Africa. As world markets recovered, commodity prices continued to rise, tempting our mining industry to consider investing in new production. The electricity crisis has been tackled and a new power station is set to join the national grid in the near future.

There are still some serious concerns however. The government has got much right in the last decade and a half but needs to ensure that corruption and incompetence are rooted out. In many cases the populace effectively pays twice for services like security, education, healthcare, roads, etc. that should be provided out of taxes. I also believe that the government's focus on transformation and redistribution at the expense of growth holds back the economy and the country's strict labour laws essentially condemn millions to possibly never working in their lifetimes.

During the year an approach was made to our larger shareholders by a party interested in acquiring the group, which led to a full and satisfactory due diligence of the business. The proposed transaction, however, required the premature unwinding of the BEE structure, but this early termination was found to be too costly.

We are pleased to have been rated number 21 in the *Sunday Times* Top 100 listed companies over 10 years (70 over five years) for total returns to shareholders.

2010 results

We are pleased to have been able to maintain performance substantially at the 2009 level. Sales of R2,5 billion are the same as last year whilst operating profit is down 2,3% to R300 million. Headline earnings per share at 800 cents are essentially the same as last year. Dividend cover has been maintained at 2,3 times, slightly more generous than our policy of 2,5 times cover (40% of headline earnings are normally paid as dividends), which resulted in a maintained dividend payout this year of 350 cents per share.

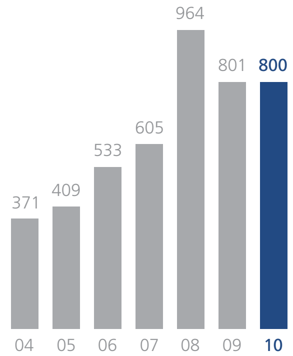
Volume sales of bearings, power transmission products and diesel engines were up on last year's levels, as mining and manufacturing activity returned to more normal levels after the unnatural boom year in 2008 and the crash that followed in 2009. Commodity prices recovered from their sharp declines but it was only towards the end of 2010 that there was any indication that local miners were planning increased output in response. Infrastructure spending, particularly road and stadium building, intensified in the first half of the year but fell away quite sharply when the World Cup tournament ended. Apart from the new power stations, it appears that there may be a one or two year hiatus in infrastructure spending ahead of us. Consumer spending on housing and building related activities (areas where Hudaco has exposure) was weak and although power tools sales picked up in the second half of the year, sales of security equipment did not and showed little year on year growth.

Hudaco continues to generate cash resulting in a very healthy financial position. This allows the company to pursue an aggressive growth strategy primarily based on acquisitions. After laying out R182 million in cash on the initial payment for the acquisition of Filter & Hose Solutions (FHS), the group still has R262 million net cash on hand at year end (last year: R335 million). Inventories are up R66 million to R663 million of which R33 million was acquired as part of FHS. The return on net operating assets (RONA) in 2010 is 32%, slightly up on last year's 30% and well above our pre-tax cost of capital which is approximately 17%. Return on equity (ROE) was 19% compared with 22% in 2009.

The CEO and financial director's short-term incentives are mainly based on the achievement of earnings growth which was not achieved in the last two years. This year the remuneration committee introduced ROE as an additional measure of performance in determining incentives so this measure will receive more focus in future.

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

Headline earnings per share (cents)



Business model

Hudaco's main business is the importation and distribution of 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 in the group benefit directly from GDFI spend, the impact on total group sales is not high. About half of our business is derived from the southern African manufacturing and mining sectors, with the balance derived from the automotive aftermarket, construction and security industries.

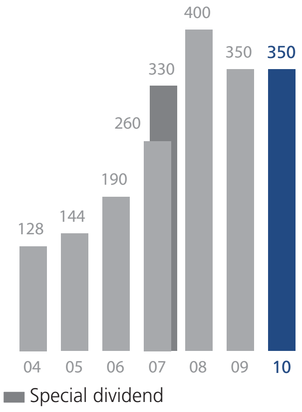
Distribution rights are sought and secured from leading international manufacturers mainly on an exclusive basis. We look for manufacturers with a global brand presence and a commitment to maintaining market leadership, particularly through technical innovation. We seek products which require a "value add" beyond product availability, which although vital, can be complemented by technical advice and training on installation and usage. With our high cost base we find it difficult to compete in markets where customers demand the lowest price – those customers are best left to other distributors with a different business model. Although all our markets are highly competitive with numerous players, no products we distribute are 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 inhibits this.

Hudaco's businesses do not require significant investment in property or plant and equipment to operate and the group statement of financial position consists mainly of working capital, with inventories being the largest component as product availability is a key competitive advantage. Last 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 to house main warehousing facilities. Bearings International's new distribution centre is currently under construction and will have cost about R70 million once completed in April 2011.

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 but the group's overhead cost base grows at the local rate of inflation. Over time one would expect the Rand to weaken by the inflation differential between South Africa and its trading partners, allowing us to pass on imported inflation to our customers at roughly the same rate as the local inflation rate. However, it is not always the case that Rand weakness in a financial year exactly equals the inflation differential. For the second year running the Rand has strengthened, resulting in price reductions whilst we have had to contend with the impact on our expenses of the local inflation rate. 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. In addition, approximately 30% of orders on suppliers are also hedged to guard against spikes in exchange rates.

Dividends per share (cents)



Acquisition strategy

The group is committed to growth through acquisitions. Last year we signalled that, with the end of the recession in sight, more effort would be devoted to this objective. This effort bore fruit with the acquisition of FHS in September 2010. At year end there were three further purchases on the drawing board, all taking effect in the 2011 financial year. If all are successfully concluded it will mean that about R500 million has been committed to acquisitions since the initiative was resumed.

Acquiring distribution rights for a competing brand is not feasible where we already represent a major world brand. Therefore, we look to acquire businesses distributing products 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 new distribution rights present themselves only rarely, which means that our acquisition strategy has to be opportunistic in nature. We do, however, maintain a permanent wish list and have a short list of targets currently under consideration.

However we remind investors that accounting standard IFRS 3, requiring intangibles in an acquisition to be fair valued and amortised, results in acquisitions often not improving earnings in the short term.

Investing in our own businesses represents the least risky growth route and every opportunity is weighed against the alternative of buying our own shares. Furthermore, a high priority is placed on ensuring that every internal growth opportunity is exploited.

Black economic empowerment

Hudaco has long recognised the need for transformation within South Africa's economy and society to redress past inequities and supports the view that business can and should play a leading role in this regard. Since 2005 we have believed that the seven pillars of the DTI's Codes of Good Practice correctly identify the most important areas requiring effort and accordingly at that time resolved to facilitate the introduction of black shareholders into the group.

Pursuant to such commitment to empowerment a restructuring of the group enabled the introduction of BEE shareholders into the group's main trading subsidiary company, Hudaco Trading (Proprietary) Limited, that resulted in the group having qualified for the maximum number of points available in terms of the equity ownership code. The restructuring avoided the need for the new shareholders to borrow money on expensive terms that could have placed the transaction under pressure. This addressed the risk that if the economy did not track forever upwards, allowing the company to pay increasing dividends to finance the purchase of the shares, all or some of the BEE shareholders' investment would have to be forfeited to the finance providers. In the event, given the very difficult trading conditions of the past two years, the decision to structure the entry of the BEE shareholders in this manner turned out to be prescient.

The group (and business in general) has been working with the DTI Codes for some years now. As we have become more familiar with them, interpretation and information gathering has become easier and progress has accelerated. Our objective of having Hudaco Trading achieve level 4 (65 points) on the scorecard was attained in 2009. Our customers have the comfort of knowing that spend with a Hudaco business gives them at least 100 cents in the rand for procurement purposes.

However, it is unfortunate that the DTI Codes are not yet universally accepted as envisaged by the DTI back in 2005. Industry charters (particularly, in our case, the mining charter) have their own requirements, while government and parastatals have developed requirements unique to themselves. These generally have only a narrow focus on ownership of the business. These differing requirements are frustrating as our businesses can find they have excellent BEE credentials at one customer and none at another.

One of the great tragedies of South Africa is that the skills pool of black people is not (and will not be for some time) sufficient to man senior management positions in the economy in proportion to black people's representation in the general population. Nevertheless, recognising that bringing black people into senior management is a national imperative, Hudaco aims to speed up the transformation of the senior management team. All senior appointments in the group – the designated top 50 to 60 people – are now monitored at exco and board level to ensure that every effort is made to find black people to fill vacant positions, while ensuring that the consequences of this policy do not result in a diminution of the high standards to which we aspire.

Appreciation

I thank my non-executive colleagues on the board and its sub-committees, including the sub-committee formed to consider the expression of interest in acquiring the group, for the contributions they make at our meetings and for their hard work this year. In particular I extend thanks to John Gibbon, who retires at the forthcoming AGM on reaching 70 years of age. John served on the board for 10 years, and for most of this time chaired the audit committee. John made a considerable contribution towards maintaining and improving the group's high standards of reporting and governance.

I also thank Nosipho Molope, who served two years on the board and does not offer herself for re-election at our forthcoming AGM, for her contribution to the company. I thank too the senior management of the group and all employees for their efforts in a challenging year and our suppliers and customers for their ongoing support.

Prospects

Most South African economic indicators have now turned upwards and it appears that a weak recovery from the devastation of 2008 is underway. World economies, upon which South Africa depends as markets for exports, are split into two camps. The old established economies of Europe, Japan and the USA are recovering thanks only to government intervention. The road to a full economic recovery in these areas is unlikely to be smooth and there will be inevitable economic shocks – so-called "black swans". How they are dealt with will determine whether those economies continue to recover or slip back into recession. Newer, emerging economies are already growing strongly and underpinning the demand for commodities. Hopefully South African miners will be able to take advantage of the increased demand and higher prices this time round.

Rand strength robs our exporters of much of the benefit higher commodity prices confer. For Hudaco, it has meant that higher volume sales this year have not translated into higher sales and earnings; 2011 may see more of the same.

Firmer trading conditions as the 2010 financial year came to a close give us confidence that volume sales will increase again in 2011. This will be supplemented by contributions from newly acquired businesses, particularly FHS which will be consolidated for the full twelve months of 2011. We are optimistic that, providing the rand does not strengthen further, Hudaco will post an increase in earnings in 2011.

RT Vice
Chairman
27 January 2011

Chief executive's review

Working together with more than 1 500 suppliers across the world positions Hudaco to supply only the highest quality products to its customers.

Stephen Connelly

Business model and management philosophy

Hudaco is an importer and distributor of high quality branded industrial consumable products. Two key elements of its success are: only selling products which require value to be added and its decentralised management style.

Value add can be some or all of the following:

- Availability
- Product identification, specification and supply
- Advice on usage or installation
- Customer training

Decentralising management has the following advantages:

- Allows faster decision-making
- Empowers employees
- Leads to high standards and disciplines

The 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 most important asset and its key competitive advantage is an ability to offer availability on demand.

A typical sale is a relatively low value transaction and 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 and reliable service levels ensure repeat business, allowing us to develop lasting relationships with customers and enabling us to utilise our own and our suppliers' skills to improve customer productivity levels.

Given the need to interact with customers at a variety of levels within the organisation, Hudaco has developed a management style that has proven successful over many years. Decentralising management by putting decision-making responsibility into the hands of people 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 manages investor relations. It deliberately manages only a few centralised services. It also provides cohesion and a sense of commonality to the whole.

2010 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 23.

In our 2010 interim results announcement we warned investors that trading activity was weak and that "it will be hard to achieve earnings growth this year". This indeed turned out to be the case and only a last minute spurt in demand as the year came to a close allowed the group to match last year's earnings.

Sales of R2,5 billion for the year are only marginally up on 2009.

Sales in Hudaco are influenced by two variables: changes in volumes of product sold and changes in prices charged. The latter is closely linked to the Rand exchange rate because Hudaco is predominately an importer. This year volume sales recovered from the very sharp decline experienced in the 2009 financial year but the recovery was not smooth. There were one or two occasions, notably during the World Cup soccer tournament, when we thought there was a danger of our markets sliding back into recession. The volume sales recovery was largely offset by the decrease in prices resulting from Rand appreciation of about 15% this year. The strong Rand also adversely affected the revenues of our customers in the mining industry and we saw little in the way of expansionary activity from that sector.

This year we implemented IFRS 8: Segment Reporting for the first time. As a result, Hudaco's businesses have been divided into two primary reportable segments serving distinct markets. Our bearings and power transmission and diesel engine businesses supply engineering consumables mainly to mining and manufacturing customers whilst the security, power tool, marine engine and automotive businesses supply products into markets influenced to a great degree by consumer spending. As a result, Hudaco's new segment information now differentiates between the ***Engineering Consumables*** and ***Consumer Related Products*** reportable segments. As time passes and we become used to the new groupings we expect the information to become more meaningful for shareholders and analysts. Before taking into account the acquisition of FHS, sales in the ***Engineering Consumables*** segment were R1 685 million, down 1,5% on last year whilst sales in the ***Consumer Related Products*** segment were R716 million, down 0,6% on last year.

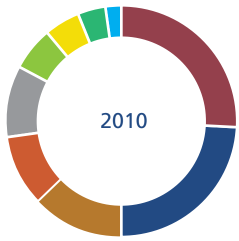
The group gross margin increased by 1,1% to 40,4% whilst expenses, held to a zero increase in 2009, rose 5,6% on a like for like basis. FHS, consolidated for the last three months of our financial year, made a useful R14 million contribution to total operating profit of R300 million which was nevertheless down 2,3% on last year. Interest income on the group's substantial cash balances (derived mainly from working capital reductions last year), added R12 million more than last year to profit before tax, which was slightly up on last year, calculated before impairment of goodwill and intangibles.

Headline earnings per share of 800 cents are essentially the same as last year. The group's dividend policy is to pay approximately 40% of headline earnings annually, or, expressed differently, to cover dividends two and a half times. The final dividend of 235 cents per share brings total dividends declared in respect of the 2010 financial year to 350 cents, the same as last year and slightly higher than 40% of earnings.

The financial position is healthy. Working capital (inventories, receivables less payables) at R666 million is R39 million above last year's level, nearly all of which is due to FHS. The group has R262 million (last year: R335 million) net cash on hand at year end, notwithstanding the initial cash outlay of R182 million on the acquisition of FHS.

Sales by market sector

%	2010	2009
Manufacturing	26	26
Mining	24	22
Wholesale and retail	13	12
Security	10	10
Automotive	10	10
Construction	6	6
Exports	5	6
Agriculture	4	5
Other	2	3



Net asset value per share is R40,80. The return on net operating assets in 2010 was 32%, up on last year's 30%, within our target range, and well above our theoretical pre-tax cost of capital which is about 17% (assuming conservative financial gearing).

Acquisitions

At the beginning of 2010 we lifted our self imposed moratorium on acquisitions, strengthened our acquisition team and increased our focus on this activity. Our first success came in the second half of the year with the acquisition of FHS, effective on 1 September 2010. FHS distributes quality branded filter products used in opencast mining and other earthmoving equipment in South and southern Africa. Main brands include Donaldson filtration products and Malcorp industrial hose. Based in Ekurhuleni, the business employs 110 people and generates sales of R220 million per annum. The initial cash payment was R182 million and the final purchase consideration will be a multiple of the average profits after tax for the three years ending 31 August 2013, subject to a maximum consideration of R350 million, and will be settled out of Hudaco's available cash resources. By way of example: if the business grows revenue at 12% per annum (which is possible but not assured) the total consideration will be R306 million.

We have acquired Midrand Special Steels with effect from 1 December 2010. The business complements that of Ambro Sales and gives it additional geographic reach, provides us with buying economies of scale and will bolster the management team. The initial payment was R10 million and the final purchase consideration will be a multiple of the average profits after tax for the three years ending 30 November 2013, subject to a maximum consideration of R25 million. Based on reasonable growth assumptions the final price is likely to be about R18 million.

Binding heads of agreement for the acquisition of Global Communications effective 1 December 2010, subject to certain suspensive conditions, have been signed. Global is an integrated network solution provider specialising in the design, supply, installation, commissioning and maintenance of telecommunications infrastructure. Major customers include the SANDF, SAPS, mines and municipalities. Products offered range from two-way radios to satellite hardware, military communication equipment and microwave equipment, all sourced from leading international producers such as Kenwood (Global is the largest distributor of Kenwood Land Mobile Radios in Africa) and JVC. Global employs 75 people and generates sales of R185 million per annum. The initial payment will be R75 million and the final purchase consideration will be a multiple of the average profits after tax for the three years ending 30 November 2013, subject to a maximum consideration of R173 million. Based on reasonable growth assumptions the final price is likely to be about R134 million.

In terms of signed binding heads of agreement, we will acquire Pentagon Distributions, a project manager of security equipment installations specialising in CCTV applications, with effect from 1 March 2011. The business complements Elvey Security Technologies and will ultimately be integrated as an arm of that business. The initial payment will be about R26 million and the final total consideration will be a multiple of the average profits after tax for the three years ending 28 February 2014, subject to a maximum consideration of R66 million. Based on reasonable growth assumptions the final price is likely to be about R43 million.

Together these three acquisitions, completed over the course of a six month period from late 2010 to early 2011, will result in initial cash outlays totalling R111 million and further payments of about R195 million over the next three years. It is planned that these payments will be settled out of Hudaco's available cash resources.

Standing: Graham Dunford | Tony Patten Seated: Gilbert da Silva | Ossie Carstens

Engineering Consumables

This segment consists of the following businesses:

Bearings
Bearings International

Diesel Engines
Deutz Dieselpower

Mechanical power transmission
Ambro Sales
Astore Africa
Belting Supply Services
Bosworth
Ernest Lowe
Filter & Hose Solutions

Electrical power transmission
Ampco
Bauer Geared Motors
Powermite
Varispeed

Engineering consumables

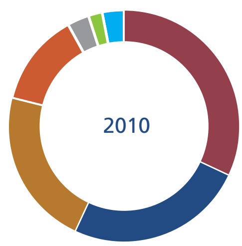
Rm	2010	2009
Turnover	1 750	1 711
– Ongoing	1 685	1 711
– Acquired 2010	65	
Operating profit	206	225
– Ongoing	192	225
– Acquired 2010	14	
Average NOA	728	764
Number of employees	1 853	1 736
Contribution to group turnover	71%	70%
Contribution to group operating profit	64%	68%

Principal markets

%	2010	2009
Manufacturing	34	34
Mining	33	31
Wholesale and retail	10	8
Total	77	73

Engineering consumables Source of products

%	2010
China	32
South Africa	25
Germany	22
European Union – Other	13
Thailand	3
Singapore	2
Other	3



Chief executive’s review

Review of operations Engineering Consumables

This segment is a leading South African distributor of branded engineering consumables. The replacement and repair market is a particular focus with customers in the South African mining and manufacturing sectors accounting for two-thirds of total activity.

Sales are principally related to GDP activity but project or GDFI business is important for creating a base for future replacement part sales and, in good years like 2008, adds the cream to our sales line.

Bearings International (BI) is Hudaco’s largest individual business with approximately 50 outlets countrywide and is primarily a retail operation, selling a wide range of exclusive and non-exclusive bearings and power transmission products to end users. Its principal brands are INA/FAG, KOYO, Ewart, Bauer, KML, Cooper and Rexnord. The business also offers a wide range of other world-leading brands supported by value adding services and technical expertise to customers in the mining, manufacturing, automotive, agricultural and general engineering market sectors.

BI again won a number of prestigious awards from both customers and suppliers during the year, including Supplier of the Year to Illovo Sugar and top honours for both Supply Excellence and Quality from Toyota. As in the past, BI’s Internal Training Centre had extensive in-house skills development training to address scarce and critical skills within Bearings International and other Hudaco group companies. This year BI hosted 20 final year Engineering students from the University of Johannesburg for training, simultaneously exposing them to our business model and brands. The business retained its Level 3 – Value Adding BBBEE status for 2010/2011. BI will move its head office and central warehouse to a new R70 million facility during April 2011.

The business had a difficult year. Although volume sales recovered about two thirds of the decline experienced in the 2009 financial year, this was more than offset by price reductions as the Rand steadily strengthened throughout the year. Strike activity at Transnet, Toyota and others also adversely affected sales. However, the business is optimistic about prospects for 2011. The fourth quarter of 2010 saw a marked improvement in trading conditions and a number of major projects, including power station construction and mining expansion, are poised to receive the go-ahead in 2011.

Principal brands Bearings International

Precision bearings from Germany.

Distributor since March 2005

Ball and roller bearings from Japan.

Sole distributor since 1962

Deutz Dieselpower (DDP), in which Hudaco’s interest is 70%, distributes Deutz diesel engines and spares primarily to off-road mining and industrial markets and has enjoyed exclusive Deutz distributor rights for more than forty years. DDP’s main market is mining in South and southern Africa but it also services agricultural, military and construction markets and supplies manufacturers of power generators. DDP’s sole supplier is Deutz AG of Germany, which owns 30% of the business.

Service support for diesel engines in the field forms the backbone of DDP’s business and is provided from eight locations, three with workshops. Support in the rest of Africa is provided by service partners who are trained and equipped to DDP/Deutz standards.

Sales of Deutz diesel engines, spares and service are underpinned by demand for capital machines by the mines, especially platinum mines. Deutz’ 914 engine family of air-cooled engines meets the current EU stage IIIA emission regulations and the success of this engine in underground mining applications has helped DDP to maintain a high market share in southern Africa. The underground mining industry is moving towards mechanisation, which improves safety – fewer people are needed underground; it means less reliance on an aggressive unionised labour force; and by utilising modern, low profile machine designs it yields higher productivity. Although electrically-powered machines have had a running cost advantage over diesel-driven alternatives in South Africa, large increases in electricity costs over the next three years will largely negate that advantage. A lack of flexibility also means electric motor driven machines can’t be used in all applications. As a result we anticipate a steady increase in demand for diesel engine driven machines over the medium term.

In common with many of our businesses, trading conditions in the first half of 2010 were difficult but after the end of the World Cup a steady improvement in sales was achieved. Capital equipment suppliers to the mining sector are entering 2011 with fuller order books which indicates that prospects are better than they have been.

Principal brand Deutz Dieselpower

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

Sole distributor since 1969

Our **mechanical power transmission** businesses distribute conveyor belting, industrial hose, couplings and pulleys, thermoplastic valves and piping, pneumatic and hydraulic equipment, air and oil filters and special composition round steel bar. Bosworth manufactures all sizes of drive pulleys used for powering conveyor systems primarily in mining applications.

Filter & Hose Solutions (FHS) was acquired this year and forms part of this business grouping. The purchase was effective 1 September 2010 which means that three months of their results are included this financial year. FHS distributes quality branded filtration products used in opencast mining and earthmoving equipment. Main brands include Donaldson filters and Malcorp industrial hose. Opencast mining is growing throughout the subcontinent so prospects for 2011 and beyond are good.

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 its own range of specialised plugs and sockets mainly used in the mining industry. Copper is an integral ingredient of much of the product offering and with prices reaching new highs, 2011 should be a good year for these businesses.

Both the mechanical and electrical power transmission businesses had a tough 2010, with a roller coaster sales line and no discernible trend. The World Cup soccer tournament, whilst having a positive effect on the nation, had a negative effect on our businesses – effectively adding another holiday month to our year. Although in many of the businesses volume sales recovered much of the drop experienced in the 2009 financial year, this was largely offset by price reductions as the Rand steadily strengthened. Some very satisfactory results were turned in: Powermite managed to hold its operating profit despite a decline in Rand sales; Ambro showed a marked increase in operating profit on moderate sales growth; and Belting Supply Services managed to increase operating profit despite a moderate decline in Rand sales. Ernest Lowe and Bauer delivered improved performances after disappointing results in 2009.

Astore had a very difficult year with profits well down on last year. As a result we have further impaired goodwill and intangible assets by R22 million. The business moved to a bigger, more manageable warehouse facility in Ekhuruleni, thus improving its image. A new management team drawn from experienced Hudaco personnel has been put in place and we expect an improved performance in 2011.

Varispeed had a difficult 2010 in a market with a dearth of project business so its profits were well down. Bosworth also experienced a sharp decline in profits as project orders, particularly from overseas customers, dried up. However, requests for quotes picked up steadily throughout the year indicating that mines are considering expanding production in response to higher commodity prices. Towards the end of the year there were real indications that those quotes are about to start turning into orders, meaning that private sector investment spending, particularly in the mining sector, is set to resume.

These developments, together with a full twelve month contribution from FHS, mean that prospects for the mechanical and electrical power transmission business groupings in 2011 are good.

Principal brands Mechanical power transmission

European pneumatic equipment.
Sole distributor since 1959
NORGREN

Thermoplastic valves from Austria.
Sole distributor since 1995
agru

Industrial hose from Thailand.
Sole distributor since 2002
NTER

Transmission and conveyor belting from Switzerland.
Distributor since 1970.

Heavy duty filtration systems from America.
Sole distributor since 1994
Donaldson

High performance industrial hose from Malaysia.
Sole distributor since 2003
MALCORP

High performance hydraulic filtration from Italy.
Sole distributor since 2003
FILTREC

Principal brands Electrical power transmission

Variable speed drives from Japan.
Sole distributor since 1992

Geared motors from Germany.
Sole distributor since 1989
BAUER

Own range of electrical plugs and sockets since 1974
AMPCO

Plugs and sockets from Germany.
Sole distributor since 1974
MENNEKES

Electrical feeder systems from Europe.
Sole distributor since 1970
CONDUCTIX WAMPFLER

Jack Edery | Bob Cameron-Smith

Consumer Related Products

This segment comprises the following businesses:

Security Products

Elvey Security Technologies

Power Tools

Rutherford

Automotive Aftermarket

Abes Technoseal

Consumer related products

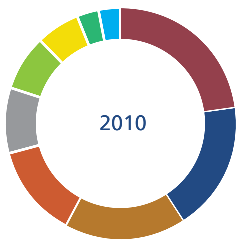
Rm	2010	2009
Turnover	716	720
Operating profit	117	108
Average NOA	182	233
Number of employees	540	551
Contribution to group turnover	29%	30%
Contribution to group operating profit	36%	32%

Principal markets

%	2010	2009
Security	33	35
Wholesale and retail	21	21
Automotive	18	16
Total	72	72

Consumer related products Source of products

%	2010
Japan	23
USA	18
China	17
European Union	13
South Africa	9
Canada	8
Korea	6
Taiwan	3
Other	3



Elvey Security Technologies' (Elvey) principal business is the distribution of intruder detection, access control and related CCTV equipment. Products include alarm control panels, keypads, indoor and outdoor motion sensors, access control monitors and indicators, cameras, recording equipment, optical fibre and related data transmission equipment.

Elvey is the largest distributor of intruder detection products in southern Africa. Customers are electronic security installers and system integrators serving the domestic, commercial and industrial security market. Elvey's largest suppliers, Tyco Security Products of Canada (under the DSC brand), Optex of Japan and UTC Fire & Security of the USA (under the Networx brand), who are represented exclusively, are three of the major world manufacturers of intruder detection equipment. Value is added through system design, application, operation advice and training.

The widespread adoption of Internet Protocol (IP) has resulted in the migration of security into the IT sphere. We expect a growing demand for a single software platform that integrates multiple security systems into other business processes and which can span multiple buildings and sites, is flexible, cost effective and because of its commonality reduces the costs of training and administration. To serve this market, Elvey has created a sales team focused on the building industry. They monitor new building developments and upgrades in the commercial sector offering project managers system design and on-site support.

The 2009 financial year was marked by a severe drop in volume sales which recovered somewhat in the first half of 2010. Spending on new construction of housing and commercial premises in 2010, however, remained depressed which impacted demand for new intruder detection equipment. Weakness in consumer spending also impacted replacement and upgrade business. Volume sales increased 6% in 2010 but the impact of the strong Rand more than offset this gain.

Employment levels are expected to increase over the next few years which will lead to higher consumer spending and renewed growth in building activity. As a result, sales of new intruder detection equipment are also expected to improve as are sales of equipment for the replacement market and upgrades. Under these circumstances, we expect profits to grow modestly in 2011 whilst the business will continue to generate satisfactory returns.

Rutherford, with warehouses in Johannesburg, Cape Town and Durban, is the sole South African distributor of Makita (high end, industrial and professional) and Maktec (medium market segment) power tools together with a range of accessories and rivets to independent retail outlets. Makita cordless technology is the world leader in Lithium Ion battery powered hand tools. Rutherford also wholesales Mercury outboard and inboard motors to boating dealers, and sells a range of Topcon survey equipment and Troxler nuclear gauges to the mining and construction industries. Makita of Japan is the largest manufacturer of professional and industrial power tools in the world with factories in Japan, United Kingdom, Romania, China, USA and Brazil. Mercury/Mariner, with manufacturing facilities in the USA, Europe and China, is the largest manufacturer of four-stroke outboard and inboard marine motors.

Principal brands Elvey Security Technologies

Unified group of world-leading access control, video and intrusion brands. Sole distributor of Canadian manufactured DSC products since 1990. Recently acquired distribution rights on complementary Tyco brands.

Japanese intrusion detection devices.
Sole distributor since 1987

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

Taiwanese manufacturer of CCTV cameras.
Sole distributor since 2007

Chinese manufacturer of digital video recorders.
Sole distributor since 2010

Range of locally and internationally sourced security accessories and CCTV products. Alarm Supplies distributed exclusively through Elvey since 1994

Chief executive's review
Review of operations Consumer Related Products

In 2010 unit sales of Makita industrial power tools increased 20% whilst Maktec increased 9%. This increase is mainly attributable to market growth as the economy started recovering from the sharp volume declines of 2009 and an increase in market share as more national retailers listed the brands. Sales of accessories and rivets increased 20% in 2010, reflecting primarily a regaining of market share lost in 2009 due to supply difficulties.

Unit sales in the marine leisure market declined a further 8% – the third year of declining unit sales. Reasons are the 2007 National Credit Act which has made credit much more difficult to obtain (perhaps rightly so), new regulations requiring boat users to obtain skippers' licences and certificates of boatworthiness and declining water quality, particularly inland. Mercury outboard sales declined by 10% this year and have declined 38% over the past three years. However, sales of inboard motors increased by 16% which reflects a move towards the luxury, higher priced end of the market. This move is good for Mercury which has always been more successful in the higher horsepower, performance end of the market.

Sales of Topcon survey equipment to the mining industry increased by 15%. However, sales of global positioning systems and Troxler nuclear density gauges were significantly down as road building contracts were completed before the World Cup soccer tournament.

Despite an increase in volume sales, Rand sales were similar to 2009 due to the impact of the strengthening Rand on selling prices but margins improved and overheads were well contained resulting in an increase in profits.

Consumer spending should continue its slow recovery and new building, alterations and renovations are expected to pick up in 2011 and we therefore expect a further increase in power tool unit sales. The marine market will probably decline again, but we anticipate an increase in sales of marine accessories – an area where we are currently renewing emphasis.

Abes Technoseal distributes a wide range of branded clutches, ignition sets and seals through independent wholesalers and retailers mainly to the automotive aftermarket. Its range of Freudenburg and Simrit seals is also supplied to the industrial sealing market.

In the clutch aftermarket it exclusively represents Aisen of Japan, Valeo of France and PHC Valeo of South Korea. Together, these manufacturers make the bulk of the clutches used in the South African light vehicle market. There was encouraging growth in the clutch sales in this financial year as we increased our product range to include medium and heavy duty clutches and we see good opportunities through our distribution channels to grow further in 2011. Volume sales of seals also grew this year and a drive by management to decrease operating expenses contributed to very pleasing results.

Sales of Bougicord ignition sets were relatively unchanged on last year, however we anticipate that pencil coil technology products (a 2007 technical upgrade from ignition cabling in new vehicles) will start selling in the aftermarket from 2011 onwards. Our principals are the market leaders in this new technology so we are optimistic that we will be able to secure a high market share.

As a whole Abes Technoseal performed well in 2010, increasing Rand sales and profits in an environment which saw considerable pressure on consumer spending. Importantly, the business laid the groundwork to achieve above average growth in earnings in the years ahead by managing its operating expenses, consolidating agencies and customers and introducing new products into the medium and heavy duty automotive aftermarket.

Principal brands Rutherford

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

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

Nuclear gauges used for compaction control of soil, concrete, asphalt and aggregate from the USA.
Sole distributor since 1974

Principal brands Abes Technoseal

Oil seals from Germany.
Preferred distributor since 1950

Ignition cables from France.
Exclusive distributor since 2007

Light duty clutch kits from France. Exclusive distributor since 2005

Clutch kits from Japan.
Sole distributor since 2007

Clutch kits from Korea.
Exclusive distributor since 1994

Clifford Amoils

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 2010 *Sunday Times* report on the top 100 listed companies ranked by total return to shareholders, Hudaco was number 21 over ten years and number 70 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 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.

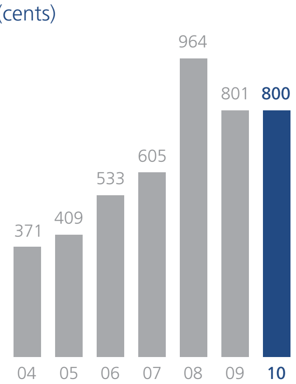
Operating targets and the cost of capital

The main operating performance measure used by the group is RONA, the Return (PBIT) on 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 RONA by managing the balance between operating profit margin (%) and net operating asset turn (times). The lower the operating profit margin, the higher the net operating asset turn has to be to achieve a RONA exceeding the cost of capital.

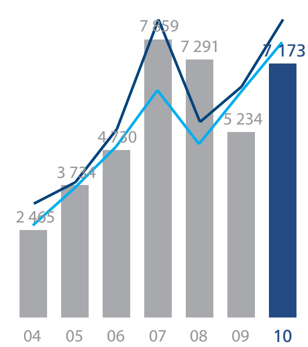
Industrial distribution businesses typically generate an operating profit margin of between 8% and 15%. A NOA turn of between three and four times is usual for our kind of business and requires management to achieve the right balance, particularly between the elements of working capital – inventory, receivables and supplier credit.

A RONA of 17% 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 2010 was 12,2% (2009: 12,7%) whilst NOA turn was 2,6 times (2009: 2,4 times). The RONA was therefore 31,6% (2009: 30,2%), well above the group's minimum target. Return on average equity (ROE) for the year was 18,9% after impairments. Returns to shareholders over the last ten years have outperformed the Industrial Index (J257), thereby meeting our objective.

Headline earnings per share (cents)



Hudaco share price (cents)



Earnings

This year headline earnings per share of 800 cents are essentially the same as 2009. Over the last ten years headline earnings per share have grown by 368% from 171 cents in 2000 to 800 cents, a compound growth rate of 16,7% per annum. Over the same period, earnings in the Industrial Index (J257) have grown by a compound growth rate of 13,5% per annum. Hudaco's price earnings ratio (based on headline earnings per share) of 10,6 on 30 November 2010 was 63% of the J257 Industrial Index price-earnings ratio of 17,3.

Dividends

Hudaco's dividend policy is to pay an interim and final cash dividend to shareholders of approximately 40% of headline earnings. This year's dividends per share total 350 cents, the same as last year and are made up of an interim dividend of 115 cents and a final dividend of 235 cents.

Cash flow

Cash flow from operating activities of R56 million was solid. Interest and dividends received totalled R218 million and R7 million was received on the issue of new shares. After investing R184 million in a new business, R50 million in property, plant and equipment, and paying R120 million in dividends to shareholders, the year closed with net cash on hand of R262 million (2009: R335 million).

A summarised statement of cash flows is set out below:

R million	2010	2009
Cash generated from trading	327	333
Decrease in working capital	12	166
Cash generated from operations	339	499
Finance costs	(234)	(235)
Taxation paid	(49)	(63)
Cash flow from operating activities	56	201

Borrowings

Hudaco has the capacity to take on more senior debt and we would ideally like more financial gearing. Our acquisition strategy may result in the achievement of this objective in the near future. However we would aim to operate with net senior debt no higher than 50% of total shareholders' funds.

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

Taxation

The group's effective rate of taxation this year is 9% (2009: 9%). 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 preference shares acquired by a subsidiary as part of the BEE transaction in August 2007. The preference shares were funded from the proceeds of the restructuring process and serve as security for the funding that was obtained by Hudaco Trading. The structure remains in place until 2017 but in future years the tax rate should climb as incremental profits are taxed at the full rate.

Financial risk management

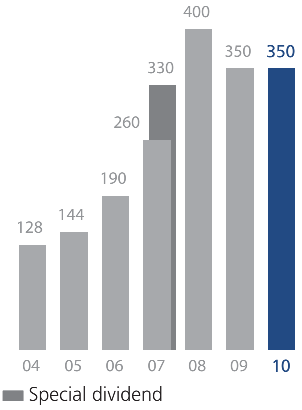
Significant financial risks in the group have been identified and are considered at each board, executive committee and audit and risk management committee meeting. The impact of each risk is quantified and its probability is assessed. Measures are put in place to manage the risk, after which the residual risk is assessed. The ways in which the group manages foreign currency risk, interest rate risk, credit risk and liquidity risk are fully set out in note 24 to the financial statements.

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

Dividends

cents	2010	2009
Interim	115	115
Final	235	235
Total	350	350
% of HEPS	44	44

Dividends per share (cents)



Head office provides all businesses with strategic input, overall financial monitoring and control, a centralised treasury and foreign currency functions, retirement and medical aid arrangements, insurance cover and claims management, internal audit and high level risk management.

Retirement funds

The group only operates 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.

It has been reported previously that one of the group funds was involved in a dispute with the FSB about whether its rules allowed the employer to take a contribution holiday and that judgment in an appeal was pending. In 2010 the appeal board found in Hudaco's favour so the contingent liability that existed for a number of years has fallen away.

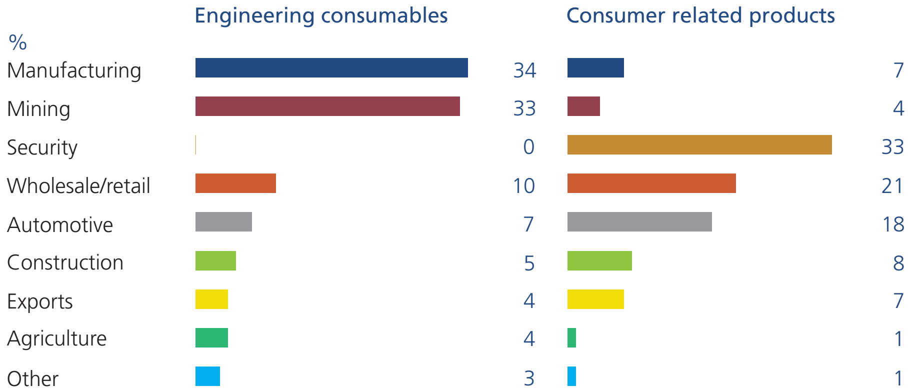
Appreciation

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 their input and guidance on strategic and governance issues during 2010.

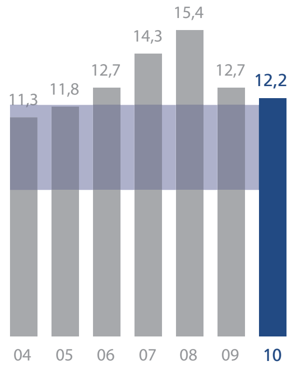
I personally also extend thanks to all managers and staff in the group, and in particular the members of my executive committee, for their advice and achievements in another difficult year for the group.

SJ Connelly
Chief executive
27 January 2011

Sales by market sector 2010

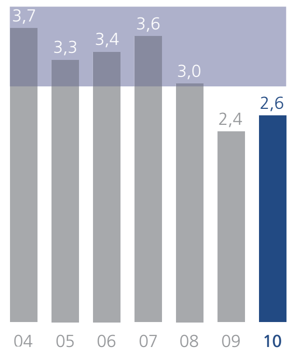


Operating profit margin (%)
Operating profit I Turnover



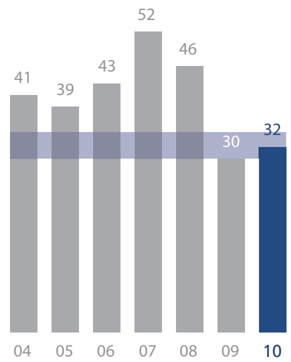
Target range – 8 to 12%

NOA* turn (times)
Turnover I Average NOA



Target range – 3 to 4 times

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



Target range – 30 to 35%

* See page 23 for definition of NOA

Corporate governance

Introduction

Hudaco is committed to maintaining a high standard of corporate governance and the board is fully committed to creating value for stakeholders in a balanced, ethical and sustainable manner. The board seeks to ensure that good governance is practised at all levels in the group and that it is an integral part of Hudaco's operations.

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

A corporate culture of compliance with applicable laws, regulations, internal policies and procedures has been established within the group. Responsible corporate citizenship and accountability for stewardship of assets have played a key role in securing sustainable returns and serve to provide stakeholders with the assurance that the group's businesses are managed appropriately.

In 2010 Hudaco Industries won the Chartered Secretaries South Africa's "Annual Report Awards" in the small cap category.

Application of and compliance with King II and King III

The board endorses the principles of openness, integrity, sustainability, transparency, fairness, responsibility and accountability advocated by the Code of Governance Principles for South Africa 2002 (King II). The directors believe that Hudaco materially complied with the requirements of King II during the year under review.

The King Code of Governance for South Africa 2009 (King III) was published in September 2009 and will be applicable to Hudaco Industries Limited in respect of its accounting year which commenced on 1 December 2010. The group is already compliant with most of the recommendations of King III and the board has resolved to ensure full compliance with King III or to disclose any areas of non-compliance and provide reasons for such non-compliance in the 2011 integrated report.

Board of directors

Board composition

The board comprises nine directors. Five are independent non-executive directors while four are executive directors. A short *curriculum vitae* of each of the directors appears on pages 4 and 5 of the annual report. Hudaco does not have or allow shadow directors.

No individual has unfettered powers of decision-making and there is a clear division of responsibilities at board level to ensure an appropriate balance of power and authority.

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

The chairman is responsible for leadership of the board and for ensuring that the board plays an effective role. He also ensures appropriate communication with shareholders and facilitates constructive relations between the executives and non-executive directors. The chief executive's principal role is to provide leadership to the executive team in running the group's business.

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

The role of the board and board procedures

The board directs the group towards and facilitates the achievement of Hudaco's strategy and operational objectives. It is accountable for the development and execution of the group's strategy, operating performance and financial results. Its primary responsibilities include determining the group's purpose and values, providing strategic direction to the group, appointing the chief executive, identifying and mitigating key risk areas, key performance indicators of Hudaco's businesses, monitoring the performance of the group against agreed objectives, deciding on significant financial matters and reviewing the performance of executive management against defined objectives and, where applicable, industry standards. A range of non-financial information is also provided to the board to enable it to consider qualitative performance factors that involve broader stakeholder interests. There is a formal schedule of material matters especially reserved for the board's approval. The board, which meets at least quarterly, retains full and effective control over all the operations. Additional board meetings, apart from those planned, are convened as circumstances dictate. The number of meetings held during the year under review, (including meetings of board-appointed committees) and the attendance of each director are set out on pages 27 to 34 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 informed of key developments affecting the group between board meetings. Non-executive directors have access to management and may meet separately with management without the attendance of executive directors.

Board charter

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

One of the purposes 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

Board meeting attendance 2010

Name	January	March	July	October
RT Vice	√	√	√	√
SJ Connelly	√	√	√	√
CV Amoils	√	√	√	√
GR Dunford*	*	*	√	√
GE Gardiner	√	√	√	√
JB Gibbon	√	√	√	√
YKN Molefi	√	√	√	√
CWN Molope	√	√	x	x
SG Morris	√	√	√	√

** Attended as alternate director*
x Submitted apologies

Board appointments

A third of the directors retire by rotation annually. If eligible, available and recommended for re-election by the remuneration and nomination committee, their names are submitted for re-election at the annual general meeting accompanied by an appropriate *curriculum vitae* set out in the 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 Listings Requirements of the JSE Limited.

Board committees

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

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

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

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

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

Remuneration and nomination committee report

Introduction

The members of the committee for the year under review were: Royden Vice (chairman), Nene Molefi and Stuart Morris, all of whom are independent non-executives.

The chief executive attends meetings by invitation but does not participate in discussions on his own remuneration.

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

The committee operates under a board-approved mandate and terms of reference, which were last reviewed and updated in 2010, incorporating the new obligations set out in King III. The committee does not assume the functions of management, which remain the responsibility of the executive directors and other members of senior management.

Remuneration and nomination committee meeting attendance 2010

Name	January	June
RT Vice	√	√
YKN Molefi	√	√
SG Morris	√	√

Remuneration role

The remuneration report is intended to provide an overview and understanding of the group's remuneration policy and practices with specific emphasis on the chief executive, executive and non-executive directors and the most highly paid employees who are not directors.

Hudaco has complied with the requirements of King III except that the chairman of the board also chairs the remuneration committee. Due to the relatively small size of the company and its board, there is one committee that serves both as the remuneration committee and the nomination committee. It is considered appropriate for the chairman of the board to preside over its proceedings.

The committee's task is to assist the board in ensuring that: the remuneration of directors and executives is fair, responsible and market related; the disclosure of directors' remuneration is accurate, complete and transparent; and general remuneration increases in the group are appropriate.

Group remuneration policy

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

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

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

In order to ensure remuneration is market related all elements of remuneration are subject to regular benchmarking exercises. The remuneration policy starting point is for fixed guaranteed remuneration to be close to the median of comparable positions as a general guideline. The committee then exercises discretion to reward individual performance above the median.

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

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

Overview of 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 in some cases, the achievement of non-financial targets;
- Long-term (three to five years) remuneration linked to earnings performance and share price appreciation.

Fixed guaranteed remuneration

Benefits within the total cost to company fixed remuneration package include a retirement scheme with risk benefits and medical aid cover. Past and expected future performance of each executive is used as a basis for remuneration reviews.

Every two years the committee engages independent remuneration consultants to benchmark our executives' remuneration against an appropriate peer group and to provide input on recent trends. This was done in June 2010 by 21st Century Pay Solutions Group. No executive receives remuneration outside the band recommended by our consultants.

Hudaco Industries

Chartered Secretaries Southern Africa's "Annual Report Awards 2010" – Small Cap Category Winner

Short-term performance-related remuneration for the chief executive and the financial director is usually based on the achievement of earnings growth. In 2009 it was based on holding the fall in earnings to a certain level. In 2010 the remuneration and nomination committee introduced ROE as an additional measure of performance in determining incentives so this measure will receive more focus in future.

For 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 businesses. Certain 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 paid only if certain conditions have been met in the second year.

At its meeting in January 2010, the committee set parameters for the 2010 incentive schemes. At the January 2011 meeting it reviewed the performance of executives and approved the payment of bonuses in accordance with these parameters. Where considered appropriate, the committee pays discretionary bonuses.

Long-term performance based remuneration is linked to the appreciation of the Hudaco share price. In 2006 the group introduced a share appreciation bonus scheme and 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 for up to two years after vesting. The number of rights awarded to directors and senior managers is based on their level of seniority and fixed guaranteed remuneration. The performance requirement for awards to vest is set by 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.

In August 2010, 276 333 share appreciation rights were awarded to executive directors and senior management in respect of the share appreciation bonus scheme.

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

Details of executive directors' emoluments are set out in note 27 to the financial statements.

Most highly paid employees who are not directors (top earners)

The top three earners were identified by the value of the total remuneration awarded for the year including the fair value of the share appreciation bonus rights granted. Remuneration and benefits paid and incentives approved in respect of 2010 for the top three earners are set out in note 28 to the financial statements.

Directors' and top earners' interests in share incentive and share appreciation bonus schemes

Details can be found in notes 27 and 28 to the financial statements.

Service contracts

Executives are appointed for an unspecified open-ended period subject to Hudaco's standard terms and conditions of employment. For all executives the notice period is three months but for the finance director it is six months.

No contractual payments are due to any of the executives on termination of employment. If there is a change in control of the company, share appreciation rights may be determined as exercisable, but there are no other contractual payments due.

Certain directors do have restraint of trade agreements.

Non-executive directors

Non-executive directors are appointed to the Hudaco Industries Limited board based on their specific skills and their ability to contribute competence, insight and experience appropriate to assisting the group to achieve its objectives. Non-executive directors are remunerated for their membership of the board of Hudaco and board sub-committees. Agreements have been concluded with all the non-executives formalising each of their appointments.

The non-executive directors' fees are split between an annual retainer and an attendance component. The annual fees paid for the year ended 30 November 2010 were approved by the shareholders on 26 March 2010.

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

The board recommends the fees payable to the chairman and non-executive directors for approval by the shareholders. Proposals for fees are prepared by management, for consideration by the remuneration and nomination committee and the board. Consideration has been given to the increased responsibility placed on non-executive directors due to the progressively burdensome legal and regulatory requirements and the commensurate risks assumed. Benchmarking information of companies of similar size and complexity are factors considered when reviewing the annual fees. At Hudaco's annual general meeting to be held on 24 March 2011, shareholders will be requested to approve the non-executive directors' fees for the year to 30 November 2011, as outlined in the notice of the AGM on page 87 of this annual report.

Non-executive directors' fees for the year are reflected in note 27 to the financial statements.

Disclosure of Interests of directors in share capital of the company

The interests of the non-executive and executive directors in the share capital of the company are disclosed in note 27 to the financial statements.

Nomination role

The committee assists the board in ensuring that: the board has the appropriate composition to execute its duties effectively; directors are appointed through a formal process; induction and ongoing training and development of directors takes place; and formal succession plans for the board, chief executive and senior management are in place.

Aspects that are considered with regard to board composition include whether the candidates would enable the company to:

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

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

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

Board and committee assessments are conducted annually in the form of written responses and/or a one-on-one interview conducted by the chairman with each member of the board. The chairman's assessment is conducted by the board while the chief executive's assessment is conducted first by the remuneration and nomination committee and then the board. Issues identified by individual board or committee members will be addressed during 2011.

Audit and risk management committee

Members: JB Gibbon (chairman), YKN Molefi, 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 was chaired during the 2010 financial year by John Gibbon. He will be retiring at the annual general meeting on 24 March 2011. 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 March 2010 to include the new obligations imposed by King III.

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 or 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, the King II and King III reports and the JSE Listings Requirements;
- ensuring that appropriate structures are implemented to ensure full implementation of King III;
- testing that the group's going-concern assertion remains appropriate;
- reviewing the interim and annual financial statements to ensure that they give fair presentation consistent with information known to the committee, before submission to the board;
- considering the appropriateness of the expertise and experience of the financial director on an annual basis;
- evaluating the independence of the internal audit function;
- evaluating the activities and the effectiveness of the internal audit function.

The Corporate Laws Amendment 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;
- 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 Christo Botha for appointment by the shareholders at the forthcoming annual general meeting as the auditor for the 2011 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 2010 have been approved and the scope of the proposed audit work has been agreed.

- In 2009, the committee 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 committee confirmed the independence of the internal audit function and satisfied itself that internal audit is functioning effectively. Further information is provided on page 35.
- 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 initially 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 the mitigating controls and other assurances in identifying and assessing the risks.

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

During the year under review the committee discharged all of its duties in respect of risk management. Specifically it:
- ensured that appropriate systems 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;
- provided board level oversight of the management of sustainability issues;
- ensured that IT risk management continues to form an integral part of the company's risk management processes.

Audit and risk management committee meeting attendance 2010

Name	January	July	October
JB Gibbon	√	√	√
YKN Molefi*	n/a	n/a	√
CWN Molope	√	x	x
SG Morris	√	√	√

** YKN Molefi was appointed to the committee with effect from 15 July 2010.*
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 terms of reference are to advise the chief executive on the formulation of operating policy, the implementation of group strategy and the management of key group risks. The committee incorporates a skills and equity sub-committee and a safety, health and environment sub-committee 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 2010

Name	January	March	July	October
SJ Connelly	√	√	√	√
CV Amoils	√	√	√	√
RC Cameron-Smith	√	√	√	√
JO Carstens	√	√	√	√
GC da Silva	√	√	√	√
GR Dunford	√	√	√	√
J Edery	√	√	√	√
GE Gardiner	√	√	√	√
AR Patten	√	√	√	√
R Wolmarans	√	√	√	√

Group secretary

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

- assists the chairman, chief executive and financial director with the induction of new directors;
- assists the board with director orientation, development and education;
- where practical ensures the group complies with legislation applicable and/or relevant to Hudaco;
- monitors the legal and regulatory environment and communicates new legislation and any changes to existing legislation to the board and the divisions;
- 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.

The certificate required to be signed in terms of subsection (d) of section 268G of the Act appears on page 43 of the annual financial statements.

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 financial statements together with written reports highlighting areas of particular risk or opportunity;
- a centralised treasury, which incorporates foreign currency and cash management functions;
- regular reporting on treasury, legal, pension, medical aid and insurance matters;
- regular meetings of the boards of the individual operating divisions;
- 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 divisions. This is designed to maintain an appropriate control environment within the constraints of board-approved strategies and budgets, whilst providing the necessary local autonomy for day-to-day operations.

Internal audit

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

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

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

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

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

The scope of the internal audit and external audit are coordinated 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 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 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 employees who have access to price-sensitive information.

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

Relationship with stakeholders

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

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.

The executive directors regularly communicate with 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 37 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.

Sustainability report

While sustainability practices have always been central to the way Hudaco conducts business, the group's formal sustainability reporting structures are still evolving as it incrementally complies with the Global Reporting Initiative.

Other more specific issues, such as safety, health, environmental management, training and HR-related matters, are managed directly by the businesses in the group, with an ultimate reporting line to Hudaco's executive committee.

Various committees have been formed and policies implemented to drive key sustainability issues. These include employment equity committees, safety, health and environment committees and audit and risk management committee. Each business within the Hudaco group identifies risks relating to its operation – including social, environmental and ethical risks. These risks are documented in risk registers which are reviewed at businesses' board meetings. The major risks to the group are included on a risk register that is monitored by the Hudaco audit and risk management committee, the executive committee and the Hudaco board. The chairman of the audit and risk management committee provides feedback on deliberations of the committee to the Hudaco board.

Hudaco's reporting complies with application level C of the Global Reporting Initiative (GRI) sustainability guidelines on economic, environmental and social performance. These have been formally adopted by the group for the first time this year.

The following guidelines and standards were considered in the compilation of this report:

- King Report on Governance for South Africa 2009 (King III)
- The Global Reporting Initiative's (GRI) guidelines and indicators (G3 edition)
- The DTI Codes of Good Practice

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

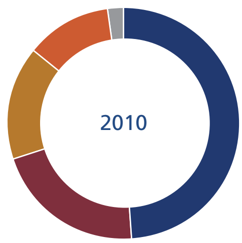
Group value-added statement

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 re-invested in the group for the replacement of assets and the further development of operations.

R000	2010	2009
Turnover	2 457 932	2 420 308
Less: cost of materials, facilities and services from outside the group	1 632 462	1 633 039
Value added	825 470	787 269
Dividends received on preference shares	200 954	202 055
Total wealth created	1 026 424	989 324
Distributed to:		
Employees – salaries, wages and other benefits	503 832	457 173
Government – company taxation	23 436	23 861
Net finance costs	218 118	229 836
Shareholders – dividends	120 562	129 410
Maintain and expand the group		
– profits retained	116 505	118 481
– depreciation, amortisation and impairment	43 971	30 563
Total wealth distributed	1 026 424	989 324

Distribution of wealth created

%	2010	2009
Employees	49	46
Lenders	21	23
Reinvested	16	15
Shareholders	12	13
Taxation	2	3



Statement of gross contributions to the government in South Africa

R000	2010	2009
Company income tax and STC	22 727	23 237
Customs and excise duty	36 089	28 170
Skills development levies and assessment rates	4 994	5 085
Value-added tax not recognised as input credit	881	979
Direct contribution to government	64 691	57 471
Add the following collected on behalf of the government:		
Value added tax (net)	94 199	105 036
Employees' tax	81 336	79 788
	240 226	242 295

Hudaco's philosophy on sustainability

Hudaco recognises that its sustainability relies on its long-term business relationships with employers, suppliers, customers, government and communities. The responsible management of the company's impact on society, the environment and these stakeholder groups lies at the heart of its commitment to sustainability, which is integrated into the business at all levels.

Corporate ethics

Hudaco's board of directors regards the Hudaco Group Code of Ethics, issued in accordance with the recommendations of the King Commission Reports, as a platform for achieving and sustaining appropriate standards of ethical behaviour, corporate governance and accountability by all businesses and 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 in the case of illegal acts or crimes.

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 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 this document.

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 values have 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 include fairness, respect and dignity, tolerance of alternative views, protection from victimisation, healthy relationships, mutual support and loyalty.

The Code was re-issued to all employees in March 2010, it is issued to all new employees and it is published on Hudaco's website.

To facilitate ethical business practice, Hudaco has established a fraud and ethics hotline, managed by an external service provider, that allows employees to communicate sensitive information securely, confidentially and anonymously if they suspect that a criminal act or any contravention of the Code has been committed by another employee.

Corporate Code of Ethics

All Hudaco group companies and their employees are to strive conscientiously to act with honesty and integrity in accordance with a high level of moral and ethical standards in their business and inter-personal dealings. All employees in the Hudaco group companies will be assumed to commit themselves to know, understand and support these values. Some specific values are listed below:

- compliance with laws, rules and regulations
- fairness, respect and dignity
- tolerance of alternative views
- mutual trust, honesty and respect for colleagues
- support and loyalty
- superior performance
- providing a safe and healthy working environment for all employees
- management of performance and recognition
- customer satisfaction
- proper communication and transparency
- confidentiality
- non-corruption
- avoiding any conflicts of interest

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, using undercover security personnel to monitor risk exposure and encouraging honesty and professionalism in the day to day activities of the businesses.

Management of risks that pose a threat to the business are of important sustainability concern and Hudaco has a number of structures in place to identify, manage and mitigate such risks. These include:
- insurance cover for product liability, fidelity, key managerial staff and directors' liability, loss of data, natural disasters and theft (including theft of infrastructure);
- disaster recovery and planning;
- business continuity planning.

The board is not aware of any incidents of non-compliance with corporate legislation or anti-competitive behaviour 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 2010 all businesses were audited by independent verification bodies. Except for Deutz Dieselpower, all the businesses reached level 4 or better.

Bearings International maintained its Level 3 BBBEE rating, achieved in 2009 and Astore Africa as well as Belting Supply Services elevated its BBBEE rating from Level 4 to Level 3. As they are all classified as value adding suppliers, their customers are able to claim 137,5% black spend for the purpose of their own BBBEE scorecards.

Deutz Dieselpower has engaged the services of a consultant to assist in implementing its BBBEE plan and has shown some improvement over 2009, moving from a non-compliant contributor at the end of November 2009 to a Level 8 contributor by the end of 2010 and qualifying as a value adding supplier. This company plans to be 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, chose not to participate in this transaction. In addition to giving up 15% of their shareholding, the initial cost to ordinary shareholders was a charge of R44 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

	2010	2009
Total workforce	2 415	2 310
Less: non-permanent employees	105	69
Total permanent workforce	2 310	2 241
Racial and gender profile:		
White males	596	614
White females	348	307
Black, Indian and Coloured males	1 105	1 055
Black, Indian and Coloured females	261	265
Occupational level profile:		
Top and senior management	61	59
Middle management	247	237
Junior management	816	797
Non-management	1 186	1 148
Management profile by gender:		
Females	247	235
Males	877	858
Management profile by race:		
White	715	693
Black, Indian and Coloured	409	400
Non-management profile by gender:		
Females	362	337
Males	824	811
Non-management profile by race:		
White	229	228
Black, Indian and Coloured	957	920

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. All appointments to senior management are now monitored at Exco and board level to ensure that white people are only appointed to these positions after exhaustive efforts have been made to find alternatives.

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 R2,6 million. Extensive in-house and external training is given in a wide range of practical and theoretical subjects to better equip employees in businesses with the skills required for senior positions. An apprenticeship programme was also launched in 2010 including financial administration, human resources administration, inventory management and warehousing courses as well as technical product training. 38 staff members completed their courses successfully.

Hudaco provides financial assistance to the University of Johannesburg with an objective of maintaining the international standard of qualifications awarded by its Mechanical Engineering department. In terms of a subvention agreement, the salary of a senior lecturer is supplemented by Hudaco. 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 Enterprise (QSE) vendors wherever possible, working closely with them to improve their service delivery. Bearings International's total spend between December 2009 and November 2010 with BBBEE and SMME (small, medium and micro enterprises) suppliers was 81%.

Examples of enterprise development include: 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. Bearings International has entered into formal enterprise development business mentorship agreements with Nkwe Industrial and Mining Supplies and with Bahlaloga Technologies, while Belting Supply Services uses Twala Global for freight and outsources its splicing work to a BEE company.

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.

All businesses in Hudaco are required to make financial and non-financial contributions for socio-economic development, with these funds managed and distributed by Hudaco's head office. In 2010 Hudaco donated approximately R1 million to a variety of charitable initiatives.

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 R300 000 were awarded in the 2010 academic year to nine beneficiaries of whom four 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 Hudaco. As the trust has not yet built up sufficient reserves to fund these bursaries, Hudaco has provided the required resources. For 2011, 17 students have been identified to receive bursaries.

Human capital

Employees

In our sector where skill shortages continue to be a challenge, Hudaco is mindful of the vital role its employees play in contributing to the ongoing success of the group. The group this year adopted a formal succession policy.

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;
- compliance with relevant national laws and regulations.

In accordance with the OHS Act, each Hudaco business has a health and safety committee, which meets once a month to discuss OHS issues. These committees comprise, 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 operating divisions. From a benefit point of view, the policy regards HIV/Aids in the same light as other life-threatening disease 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.

During 2010 several of our businesses held health initiatives where all employees were given an opportunity to be tested. Tests conducted included blood pressure, cholesterol, blood sugar, tuberculosis, eyesight and lung capacity tests. HIV/Aids tests were also available. All personnel at the senior leadership level, comprising approximately 60 people, are encouraged to undergo comprehensive medical examinations each year. With their agreement, results which may impact on performance are communicated to the chief executive.

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

Assessing the environmental impact of Hudaco's businesses is an important aspect of triple bottom line corporate responsibility. Although the distribution of industrial products cannot be classified as a high impact activity, its customers and suppliers can potentially have a high impact. In due course Hudaco will identify key issues impacting the environment and set objectives to minimise them.

No incidences of non-compliance, prosecution or fines relating to environmental performance or management were reported during 2010.

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. In terms of its ISO 14001 objectives, Bearings International's new head office and warehouse building incorporates the latest energy-saving lighting, cooling, heating and ventilation systems.

Bearings International is constructing its new building near a protected wetland. It has signed a formal undertaking to actively participate in the protection and upkeep of the wetland and its bird and animal life.

Bearings International sells only top quality products, which increases the average time between failures, in turn minimising scrap. Packaging used is mostly recyclable. 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. The company has also implemented an active environmental monitoring and reduction programme covering noise pollution.

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 fully fledged waste recycling programme was implemented in January 2010.

During 2010 Elvey Security Technologies joined forces with *Die Nutsman*, a reality series on the Home Channel TV in designing a "green" security solution. The result was wireless system detectors, alarm panel and keypad all operating using battery power, not requiring any electrical source within the home, leading to a more energy efficient and eco-friendly product.

Belting Supply Services 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, OHSAS 18001 and 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. The business has an internal audit schedule in place to monitor all environmental processes and to ensure that its objectives and targets in this arena are achieved.

Astore Africa and Powermite are ISO 9001 accredited.

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

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 2010 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
27 January 2011

Financial statements

Contents

Audit and risk management committee's report

The audit and risk management committee submits this report as required in terms of the Companies Act of South Africa (Companies Act). The audit and risk management committee consists of three directors who act independently as described in section 269A of the Companies Act. During the year under review three meetings were held. At these meetings the members fulfilled their functions as prescribed by the Companies Act. A detailed list of the functions of the audit and risk management committee is contained in the corporate governance report on pages 32 and 33.

The audit and risk management committee has satisfied itself that the auditors are independent of the company and are thereby able to conduct their audit functions without any influence from the company.

The audit and risk management committee has further evaluated the consolidated annual financial statements for the year ended 30 November 2010 and considers that they comply, in all material aspects, with the requirements of the Companies Act and International Financial Reporting Standards. The committee has therefore recommended the annual financial statements for approval by the board. The board has subsequently approved the financial statements which will be open for discussion at the forthcoming annual general meeting.

JB Gibbon
Chairman of the audit and risk management committee
27 January 2011

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 on page 47.

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

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

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

The annual financial statements for the year ended 30 November 2010, which appear on pages 48 to 84, were approved by the board on 27 January 2011 and are signed on its behalf by:

RT Vice
Chairman
27 January 2011

SJ Connelly
Chief executive

Independent auditors' report

To the members of Hudaco Industries Limited

Introduction

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 statements of financial position as at 30 November 2010, the consolidated and separate statements of comprehensive income, the consolidated and separate statements of changes in equity and consolidated and separate statements of cash flows for the year then ended, and notes which include a summary of significant accounting policies and other explanatory notes, as set out on pages 48 to 84.

Directors' responsibility for the annual financial statements

The company's directors are responsible for the preparation and fair presentation of these annual 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 auditors' 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 consolidated and separate financial position of Hudaco Industries Limited as at 30 November 2010, 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

27 January 2011

137 Daisy Street
Cnr Grayston Drive
Sandown, 2196
Johannesburg

Directors' report

Nature of business

Hudaco Industries is an investment holding company involved in the broad field of the importation and distribution of selected high quality industrial products in the southern African region. Hudaco businesses serve markets that fall into two primary segments. The bearings and power transmission and diesel engine businesses supply engineering consumables mainly to mining and manufacturing customers whilst the security, power tool and automotive aftermarket businesses supply products into markets reliant on consumer spending.

Financial results

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

Subsidiaries

Particulars of the principal subsidiaries of the group are set out on page 84 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 2010 are:

R million	2010	2009
Profits	296	293
Losses	(59)	(48)

Acquisitions and disposals

There were no disposals during the financial year.

The following acquisitions were made:

100% of the issued share capital and shareholders' loans of Filter & Hose Solutions (Pty) Limited

Effective 1 September 2010, Hudaco acquired 100% of the issued share capital and shareholders' loans. The purchase consideration is a multiple of the average profit after tax (but before interest received) for the three years ending 31 August 2013, subject to a maximum consideration of R350 million, settled as follows: an initial amount of R182 million was paid in cash on 1 September 2010; and three tranches payable in cash on 31 October 2011, 2012 and 2013, based on actual levels of average profitability achieved in each of those years.

Acquisition of the trading assets and liabilities of Midrand Special Steels

Hudaco acquired Midrand Special Steels' trading assets and liabilities with effect from 1 December 2010. The purchase consideration is subject to a maximum of R25 million and includes an initial amount of R10 million paid in cash on 1 December 2010, and three tranches payable on 31 January 2012, 2013 and 2014, based on actual levels of average profitability achieved in those years.

Acquisition of the trading assets and liabilities of Global Communications and Ikwezi Maintenance and Communications (Global)

Subject to certain suspensive conditions, with effect from 1 December 2010, Hudaco will acquire the trading assets and liabilities of Global. The purchase consideration, subject to a maximum of R172,5 million, is settled as follows: an initial amount of R75 million will be paid in cash when the suspensive conditions are met; and three tranches payable in cash on 31 January 2012, 2013 and 2014, based on actual levels of average profitability achieved in each of those years.

Acquisition of the trading assets and liabilities of Pentagon Distributions

With effect from 1 March 2011, subject to certain suspensive conditions, Hudaco will acquire the trading assets and liabilities of Pentagon Distributions. The purchase consideration, subject to a maximum of R66 million, is to be settled as follows: an initial amount of R26 million payable in cash on 1 March 2011; and three tranches payable in cash on 30 April 2012, 2013 and 2014, based on actual levels of average profitability achieved for those years.

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 Listings Requirements of the JSE Limited, allows the Hudaco group to purchase its own shares up to a maximum of 10% of the issued shares, at a price not greater than 10% above the preceding five-day weighted average. Shareholders have been asked to renew this authority at the forthcoming March 2011 annual general meeting.

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, by way of treasury shares.

Share capital

The authorised capital remained unchanged during the year. The issued share capital was increased by R29 992 to R3 404 770 through the issue of 299 919 shares of 10 cents each to employees in terms of the share incentive scheme for a total consideration of R7 256 499 (average of R24,19 per share).

Full details of the authorised and issued capital of the company at 30 November 2010 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 appear on pages 4 and 5.

Mr GR Dunford was appointed a full director on 15 July 2010. Until then, he had been an alternate director.

In terms of the company's articles of association, Mr GR Dunford is required to retire at the forthcoming annual general meeting and Ms CWN Molope, Mr JB Gibbon and Mr SR Morris retire by rotation. Messrs SR Morris and GR Dunford are available, eligible and recommended for re-election. Their profiles appear on pages 4 and 5.

Directors' interests

The directors' interests in the issued shares of the company are set out in note 27.1

Details of the executive directors' interests in the Hudaco share incentive and share appreciation bonus schemes are provided in note 27.2 to these financial statements.

Directors' emoluments

The emoluments of executive and non-executive directors are determined by the company's remuneration and nomination committee. Further information relating to the earnings and perquisites of the directors together with details relating to share appreciation right allocations are set out in notes 27.2 and 27.3 to the financial statements.

Secretary

Reana Wolmarans acts as secretary of the company. The address of the secretary is set out on page 91.

Post reporting date events

Other than the acquisitions referred to above, there were no events after year end significant enough to warrant disclosure in this report.

Group statement of comprehensive income

for the year ended 30 November 2010

	Notes	2010 R000	2009 R000
Turnover		2 457 932	2 420 308
Ongoing operations		2 392 692	2 420 308
Operations acquired in 2010		65 240	
Cost of sales		1 464 334	1 468 866
Gross profit		993 598	951 442
Operating expenses	5	693 513	644 378
Operating profit	5	300 085	307 064
Ongoing operations		286 312	307 064
Operations acquired in 2010		13 773	
Impairment of goodwill and intangible assets		(22 418)	(8 670)
Net surplus on sale of business			1 139
Profit before interest		277 667	299 533
Dividends received on investment in preference shares		200 954	202 055
Interest received		17 003	4 959
Finance costs	6	(235 121)	(234 795)
Profit before taxation		260 503	271 752
Taxation	8	23 436	23 861
Profit for the year		237 067	247 891
Other comprehensive income			
Movement on fair value of cash flow hedges		214	(562)
Total comprehensive income for the year		237 281	247 329
Profit attributable to:			
– shareholders of the group		234 381	243 237
– non-controlling shareholders		2 686	4 654
		237 067	247 891
Total comprehensive income attributable to:			
– shareholders of the group		234 595	242 675
– non-controlling shareholders		2 686	4 654
		237 281	247 329
Headline earnings per share (cents)	9	800	801
Diluted headline earnings per share (cents)	9	784	785
Basic earnings per share (cents)	9	745	784
Diluted basic earnings per share (cents)	9	730	769

Group statement of financial position

at 30 November 2010

	Notes	2010 R000	2009 R000
Assets			
Non-current assets		2 698 916	2 418 326
Property, plant and equipment	10	130 734	90 837
Investment in preference shares	11	2 180 966	2 180 966
Goodwill	12	330 718	117 246
Intangible assets	13	33 694	17 636
Deferred taxation	14	22 804	11 641
Current assets		1 347 750	1 288 034
Inventories	15	662 946	596 950
Trade and other receivables	16	422 840	355 923
Cash and cash equivalents		261 964	335 161
Total assets		4 046 666	3 706 360
Equity and liabilities			
Equity		1 313 530	1 184 352
Interest of shareholders of the group		1 286 799	1 150 094
Non-controlling interest		26 731	34 258
Non-current liabilities		2 279 824	2 186 007
Subordinated debenture	18	2 180 966	2 180 966
Amounts due to vendors of businesses acquired	18	98 858	5 041
Current liabilities		453 312	336 001
Trade and other payables	19	419 892	325 884
Amounts due to vendors of businesses acquired	18	27 701	
Taxation		5 719	10 117
Total equity and liabilities		4 046 666	3 706 360

Group statement of cash flows

for the year ended 30 November 2010

	Notes	2010 R000	2009 R000
Cash flow from operating activities			
Operating profit		300 085	307 064
Adjusted for:			
Cost of equity compensation		5 202	3 972
Depreciation and loss on disposal of plant and equipment		17 767	18 074
Amortisation of intangible assets		3 936	3 979
Decrease in working capital	22.1	12 372	166 156
Cash generated from operations		339 362	499 245
Fair value adjustment of cash flow hedges		214	(562)
Finance costs	22.2	(233 516)	(234 795)
Taxation paid	22.3	(49 797)	(63 187)
Net cash from operating activities		56 263	200 701
Cash flow from investing activities			
Payments to vendors of businesses acquired			(6 752)
Purchase of property, plant and equipment		(51 757)	(19 834)
Proceeds from disposal of plant and equipment		1 933	2 914
Discontinuation of business			7 298
Acquisition of new business	20	(184 288)	
Dividends and interest received	22.4	217 957	203 156
Net cash from investing activities		(16 155)	186 782
Cash flow from financing activities			
Proceeds from issue of shares		7 257	7 717
Decrease in amounts due to bankers			(65 197)
Dividends paid	22.5	(120 562)	(129 410)
Net cash from financing activities		(113 305)	(186 890)
Net (decrease) increase in cash and cash equivalents		(73 197)	200 593
Cash and cash equivalents at the beginning of the year		335 161	134 568
Cash and cash equivalents at the end of the year		261 964	335 161
Cash flow per share (cents)	22.6	878	1 214

Group statement of changes in equity

for the year ended 30 November 2010

R000	Share capital	Share premium	Non-dis-tributable reserves	Retained income	Interest of share-holders of the group	Non-con-trolling interest	Equity
Note	17.2		17.6	17.4			
Balance at 30 November 2008	3 343	34 238	54 605	941 570	**1 033 756**	39 694	**1 073 450**
Comprehensive income for the year			(74)	242 749	**242 675**	4 654	**247 329**
Increase in equity compensation reserve			3 972		**3 972**		**3 972**
Issue of 317 005 shares	32	7 685			**7 717**		**7 717**
Dividends (note 21)				(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**
Balance at 30 November 2009	3 375	41 923	58 503	1 064 999	**1 168 800**	34 258	**1 203 058**
Comprehensive income for the year			745	233 850	**234 595**	2 686	**237 281**
Increase in equity compensation reserve			5 202		**5 202**		**5 202**
Issue of 299 919 shares	30	7 227			**7 257**		**7 257**
Dividends (note 21)				(110 349)	**(110 349)**	(10 213)	**(120 562)**
Balance at 30 November 2010	3 405	49 150	64 450	1 188 500	**1 305 505**	26 731	**1 332 236**
Less: shares held by subsidiary company	(251)		(41)	(18 414)	**(18 706)**		**(18 706)**
Net balance at 30 November 2010	3 154	49 150	64 409	1 170 086	**1 286 799**	26 731	**1 313 530**

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) and in the manner required by the Companies Act of South Africa. These policies have been consistently applied, except for those described in note 3.

1.2 Basis of consolidation

The group financial statements incorporate all the assets, liabilities and results of the company and all entities that are controlled by the company. In all cases results are reported from the effective date of acquisition or to the effective date of disposal using the purchase method. The identifiable assets and liabilities of entities acquired are assessed and included in the statement of financial position at their fair values at dates of acquisition. Significant intercompany transactions and balances have been eliminated.

Non-controlling interests in the net assets of consolidated entities are identified and recognised separately from the group's interest therein, and are recognised within equity. Losses of subsidiaries attributable to non-controlling interests are allocated to the non-controlling interest even if this results in a debit balance being recognised for non-controlling interest.

1.3 Business combinations

The group accounts for business combinations using the acquisition method of accounting. The cost of the business combination is measured as the aggregate of the fair values of assets given, liabilities incurred or assumed and equity instruments issued. Costs directly attributable to the business combination are expensed as incurred, except the cost to issue debt which is amortised as part of the effective interest.

Contingent consideration is included in the cost of the combination at fair value as at the date of acquisition. Subsequent changes to the assets, liabilities or equity which arise as a result of the contingent consideration are not effected against goodwill, unless they are valid measurement period adjustments or the acquisition date was prior to 1 December 2009.

The acquiree's identifiable assets, liabilities and contingent liabilities which meet the recognition conditions of IFRS 3: Business Combinations are recognised at their fair values at acquisition date, except for non-current assets that are classified as held for sale in accordance with IFRS 5: Non-current Assets Held For Sale, which are recognised at fair value less costs to sell.

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

1.4 Turnover

Turnover represents the invoiced value of goods and services sold outside the group less both settlement discounts and VAT. Turnover is recognised at the fair value of the consideration received or receivable when the risk passes to the customer.

1.5 Cost of sales

When inventories are sold, the carrying amount is recognised as part of cost of sales. Any write-down of inventories to net realisable value and all losses of inventories or reversals of previous write-downs or losses are recognised in cost of sales in the period the write-down, loss or reversal occurs.

1.6 Short-term employee benefits

The cost of short-term employee benefits (those payable within 12 months after the service is rendered, such as paid vacation leave and sick leave, bonuses and non-monetary benefits such as medical care) are recognised in the period in which the service is rendered and are not discounted.

The expected cost of incentive payments is recognised as an expense when there is a legal or constructive obligation to make such payments as a result of past performance.

1.7 Operating leases

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

1.8 Dividend income

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

1.9 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 were granted. The fair value is charged as an expense in determining operating profit, with a corresponding credit to equity, on a straight-line basis over the initial vesting period of each grant. The costs take into account the best estimate of the number of shares that are expected to vest, taking into account non-market conditions such as exits from the scheme prior to vesting and operating performance compared to target for vesting. This estimate is revised at each reporting date and the impact of the revision is to spread the new estimated remaining cost over the balance of the vesting period, including the current year. Upon exercise of share options, the proceeds received net of any directly attributable transaction costs up to the nominal value of the shares issued are allocated to share capital with any excess being recorded as share premium.

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.

1.10 Retirement benefits

Defined contribution pension or provident schemes are operated by all group companies. Contributions made to these schemes are charged to profit in the year in which they are payable.

By virtue of the types of schemes operated in the group, no past service costs or experience adjustments will arise in the retirement funding arrangements.

1.11 Income from investments

Interest income is accrued on a time basis by reference to the principal outstanding and at the interest rate applicable.

1.12 Borrowing costs

Borrowing costs are recognised in profit in the period in which they are incurred.

1.13 Current taxation

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

1.14 Property, plant and equipment

Land is stated at cost to the group.

Buildings, plant and equipment are carried at cost less accumulated depreciation and impairment. They are depreciated on a straight-line basis to their expected residual values over their estimated useful lives. Both their residual values and useful lives (note 10) are reassessed annually. The gain or loss arising from the derecognition of an item of property, plant and equipment is included in profit when the item is derecognised.

1.15 Capitalisation of leased assets

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

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

1.16 Investment in subsidiaries

Investments in subsidiaries are carried at cost. The cost of the investment in a subsidiary is the aggregate of:

- the fair value of assets given, liabilities incurred or assumed, and equity instruments issued by the company; plus
- any costs directly attributable to the purchase of the subsidiary.

1.17 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.

Goodwill arising on acquisitions before April 2004 has been retained at previous net amounts, which are tested for impairment at least annually.

1.18 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.

1.19 Deferred tax

A deferred tax liability is recognised for all temporary differences, except to the extent that the deferred tax liability arises from the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction, affects neither accounting nor taxable profit.

A deferred tax asset is recognised for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised. A deferred tax asset is not recognised when it arises from the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction, affects neither accounting nor taxable profit.

A deferred tax asset is recognised for the carry forward of unused tax losses and unused STC credits to the extent that it is probable that future taxable profit will be available against which these unused tax losses and unused STC credits can be utilised.

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

1.20 Inventories

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

1.21 Financial instruments

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

Subsequent to initial recognition these instruments are measured as follows:

- Investments – where the group has the positive intention and ability to hold the securities to maturity, investments are stated at amortised cost using the effective interest rate method, less any impairment loss, recognised to reflect irrecoverable amounts.
- Trade and other receivables are stated at cost less impairment for doubtful debts.
- Cash and cash equivalents are measured at fair value, based on the relevant exchange rates at the reporting date.
- Financial liabilities – non-derivative financial liabilities are recognised at amortised cost, comprising net proceeds from original debt less principal payments. Interest is imputed on amounts due to vendors of businesses acquired.
- Derivative instruments, including forward exchange contracts, are measured at fair value.

Hedge accounting transactions are classified into two categories:

- fair value hedges, which hedge exposure to changes in the fair value of a recognised asset or liability, ie forward exchange contracts in respect of foreign trade liabilities;
- cash flow hedges, which hedge exposure to variability in future cash flows attributable to forecasted transactions, 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 gains or losses on fair value hedges are recognised in profit for the year.
- Gains or losses on effective cash flow hedges are recognised in other comprehensive income. These gains or losses are transferred to profit in the same period in which the hedged future transaction affects profit.

1.21 Financial instruments (continued)

- The ineffective portion of any cash flow hedge is recognised in profit for the year.
- Gains and losses from a change in the fair value of financial instruments that are not part of a hedging relationship are included in the net income for the period in which they arise.

1.22 Impairment

On an annual basis the group reviews all assets, both tangible and intangible, carried on the statement of financial position for impairment. Where the recoverable amount of an asset or cash-generating unit is estimated to be lower than its carrying amount, its carrying amount is reduced to its recoverable amount. Impairment losses are charged against profit in the period in which they are identified.

Where an impairment loss subsequently reverses, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount. Such increases in carrying amounts are limited to the original cost. A reversal of an impairment loss is recognised in profit in the period in which such reversal is identified.

1.23 Foreign currency transactions

The functional currency of all the entities in the group is Rand.

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

All assets and liabilities denominated in foreign currencies are translated to the functional currency at the exchange rate ruling at the reporting date.

Exchange differences arising on the settlement of transactions at rates different from those at the transaction date, and unrealised exchange differences on unsettled foreign currency monetary assets and liabilities, are recognised in profit for the year.

1.24 Contingencies

After initial recognition, contingent liabilities recognised in business combinations that are recognised separately are subsequently measured at the higher of:

- the amount that would be recognised as a provision;
- the amount initially recognised less cumulative amortisation.

Contingent assets and liabilities are not recognised, but are disclosed in the notes to the financial statements.

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

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

Significant estimates and judgements are made in the following areas:

Property, plant and equipment – useful lives and residual values – note 10
Investments – note 11
Impairment of goodwill tests – note 12
Fair value and impairment of intangible assets – note 13
Deferred taxation – the extent to which it is probable that taxable profit will be available against which deductible temporary differences can be utilised – note 14
Inventories – allowance for slow-moving and obsolete inventory – note 15
Trade receivables – allowance for doubtful debts – note 16
Fair value of share-based payments – note 17.5
Contingent liabilities – the assessment, based on expert advice received, to determine whether an item is a contingent or actual liability – note 23
Fair value of financial instruments – note 24

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

3. Changes in accounting policies

During the year the group adopted the following new or revised standards:

IAS 1: Presentation of Financial Statements Revised

The revision resulted in several changes, including terminology changes. Accordingly, the balance sheet is now referred to as the statement of financial position and the cash flow statement as the statement of cash flows.

In accordance with the revisions, all non-owner changes in equity are now presented in a single statement of comprehensive income.

The revisions also introduce the concept of other comprehensive income and require disclosure to be made of all reclassification adjustments and all taxation implications of each component of other comprehensive income. This information has been disclosed in the notes to the financial statements.

Dividend information will now only be disclosed either on the face of the statement of changes in equity or in the notes.

The Standard did not provide for any transitional provisions for the revisions, which are required to be and have been applied retrospectively.

IFRS 3: Business Combinations Revised and IAS 27: Consolidated and Separate Financial Statements Revised

The following revisions were made to the Standards:

- Acquisition-related costs are now to be expensed.
- Non-controlling interest is now to be calculated either at fair value or at their proportionate share of the net identifiable assets of the acquiree.
- Contingent consideration is to be included in the cost of the business combination without further adjustment to goodwill, except for measurement period adjustments.
- All previous interests in the acquiree are to be measured to fair value at acquisition date when control is achieved in stages, and the resultant fair value adjustments are to be recognised in profit or loss.
- Goodwill is to be measured as the acquisition date fair value of consideration paid plus non-controlling interest plus the fair value of previous shareholding less the fair value of the net identifiable assets of the acquiree.
- The acquirer is required to reassess, at acquisition date, the classification of the net identifiable assets of the acquiree, except for leases and insurance contracts.
- Contingent liabilities of the acquiree are only to be included in the net identifiable assets when there is a present obligation in respect of the contingent liability.

The transitional provisions provide for the revised Standard to be applied prospectively. Assets and liabilities which arose from business combinations occurring before 1 December 2009 shall not be affected.

In accordance with the Standards, the revisions have been applied prospectively.

IFRS 8: Operating Segments

IFRS 8 replaces IAS 14: Segment Reporting. The new Standard requires a "management approach", under which segment information is presented on the same basis as that used for internal reporting purposes.

The effective date of the Standard is for years beginning on or after 1 January 2009.

The group has adopted the Standard for the first time in the 2010 financial statements.

The application of this Standard had an impact on the make-up of the group's segment information by reducing the number of reportable segments to two (Engineering Consumables and Consumer Related Products) but not on the results as a whole.

4. Impact of new accounting Standards and interpretations on future financial statements of the group

At the date of authorisation of these financial statements, the following Standards applicable to the group and company were in issue but not yet effective:

- IFRS 2: Share-based Payments (Amendments)
- IFRS 5: Non-current Assets Held for Sale and Discontinued Operations (Amendments)
- IFRS 9: Financial Instruments – Classification and Measurement
- IAS 7: Statement of Cash Flows (Amendments)
- IAS 17: Leases (Amendments)
- IAS 24: Related Party Disclosures (Revised)
- IAS 32: Financial Instruments: Presentation (Amendments)
- IAS 36: Impairment of Assets (Amendments)
- IAS 38: Intangible Assets (Amendments)
- IAS 39: Financial Instruments: Recognition and Measurement (Amendments)

The directors anticipate that the adoption of these Standards in future periods will have no material impact on the financial statements of the group and company.

Amendments issued in May 2010 to existing Standards are effective for the years ending 30 November 2011 and 2012. The group is in the process of evaluating the requirements of these amendments and their impact on the financial statements.

	2010 R000	2009 R000
5. Operating profit		
Operating expenses comprise:		
Staff costs	503 832	457 173
Property rentals under operating leases	47 693	39 098
Depreciation	17 617	17 914
Amortisation	3 936	3 979
Loss on disposal of plant and equipment	150	160
Other expenses	172 775	172 479
Allocated to cost of sales	(52 490)	(46 425)
	693 513	644 378
Included in other expenses and cost of sales are:		
Loss on translation of foreign currency monetary items	3 586	9 857
Cost of fair value hedges	10 108	10 617
6. Finance costs		
Interest paid on subordinated debenture	233 516	234 795
Interest imputed on amounts due to vendors of businesses acquired	1 605	
	235 121	234 795
7. Auditors' remuneration		
Audit fees – current year	4 575	4 777
Fees for other services	394	
	4 969	4 777

	2010 R000	2009 R000
8. Taxation		
8.1 Taxation comprises		
South African normal taxation		
Current year	42 890	38 294
Prior years	789	332
Deferred normal taxation		
Current year	(21 851)	(16 151)
Prior years	(117)	(99)
Secondary tax on companies	1 038	1 164
Foreign normal taxation – current year	685	312
Capital gains tax	2	9
Total taxation	23 436	23 861
8.2 Reconciliation of rate of taxation	%	%
Normal rate	28,0	28,0
Exempt income/foreign rate differential	(22,0)	(21,8)
Disallowable expenditure	2,3	2,1
Secondary tax on companies	0,4	0,4
Prior year under provision	0,3	0,1
Effective rate of taxation	9,0	8,8
9. Headline earnings and earnings per share		
Calculation of headline earnings		
Profit attributable to shareholders of the group	234 381	243 237
Adjusted for:		
Impairment of goodwill and intangible assets	22 418	8 670
Tax effect of impairment of intangible assets	(1 988)	(952)
Non-controlling interest in impairment of goodwill and intangible assets	(3 064)	(1 158)
Net surplus on sale of business		(1 139)
Tax effect of sale of business		(502)
Non-controlling interest in sale of business		246
Loss on disposal of plant and equipment after taxation	101	101
Headline earnings	251 848	248 503

The calculation of headline and basic earnings per share is based on headline earnings (set out above) and earnings attributable to shareholders of the group as set out in the statement of comprehensive income, divided by the weighted average of 31 465 736 (2009: 31 023 025) shares in issue during the year, taking account of shares held by a subsidiary.

The calculation of diluted earnings per share is based on 32 108 737 (2009: 31 643 744) shares, being the weighted number of shares in issue of 31 465 736 plus 643 001 deemed free issue shares. This assumes that all the rights granted in the share incentive scheme (note 17.5) at prices less than 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 the year end price of R85,01 per share. The number of deemed free issue shares is the difference between the number of shares assumed to have been taken up and the number of shares that could have been acquired with such proceeds less the future IFRS 2 charge on the unvested rights, at the average market price per share.

10. Property, plant and equipment

R000	Freehold land and buildings	Plant	Computers	Motor vehicles	Other assets	2010 Total
Cost						
Opening balance	12 086	44 968	41 055	42 859	23 944	**164 912**
Acquisition of new business		6 217	148	6 835	738	**13 938**
Additions	35 240	2 413	4 157	8 256	1 691	**51 757**
Disposals		(572)	(1 459)	(3 239)	(980)	**(6 250)**
Closing balance	47 326	53 026	43 901	54 711	25 393	**224 357**
Accumulated depreciation						
Opening balance	3 002	16 373	24 141	19 035	10 524	**73 075**
Acquisition of new business		2 376	120	3 301	301	**6 098**
Depreciation for the year	215	3 347	5 237	5 669	3 149	**17 617**
Disposals		(404)	(1 289)	(1 978)	(496)	**(4 167)**
Closing balance	3 217	21 692	28 209	26 027	13 478	**92 623**
Accumulated impairment						
Opening and closing balance	1 000					**1 000**
Net book value	43 109	31 334	15 692	28 684	11 915	**130 734**

R000	Freehold land and buildings	Plant	Computers	Motor vehicles	Other assets	2009 Total
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
Accumulated impairment						
Opening and closing balance	1 000					1 000
Net book value	8 084	28 595	16 914	23 824	13 420	90 837
The initial expected useful lives are set within these ranges (years):	25-60	25-30	1-10	5-15	5-10	

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

	2010 R000	2009 R000

11. Investment in preference shares

Unlisted securities

	2010 R000	2009 R000
Business Venture Investments No 1095 (Pty) Limited – 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 24.3). The preference shares, which the group intends to hold to maturity, are redeemable on 31 August 2017 and are pledged as security for the subordinated debenture (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

12. Goodwill

12.1 Goodwill comprises:

	2010 R000	2009 R000
Goodwill at cost	**352 807**	124 016
Less: accumulated impairment	**(22 089)**	(6 770)
	330 718	117 246

12.2 Movement for the year

	2010 R000	2009 R000
Balance at beginning of the year	**117 246**	131 226
Adjustments to purchase consideration	**3 111**	(8 710)
Impairment for the year	**(15 319)**	(5 270)
Acquisition during the year	**225 680**	
	330 718	117 246

Goodwill arising in business combinations is allocated, at acquisition, to the cash-generating units (CGUs) acquired and those expected to benefit from that business combination. The group tests goodwill for impairment at least annually by estimating the recoverable amount of any CGU to which goodwill has been allocated. The recoverable amount is estimated by using the higher of the value in use method and the fair value less cost to sell. A discounted cash flow forecast is done by management as the basis for determining the estimated recoverable amount. Appropriate growth and discount rates, given the industry and location of the CGU and its operations, are applied to the forecast.

The net book value of goodwill has been allocated to the following CGUs:

	2010 R000	2009 R000
Filter & Hose Solutions	**225 680**	
Powermite	**26 589**	26 589
Ambro Sales	**22 217**	19 106
Abes Technoseal	**14 435**	14 435
Elvey Security Technologies	**12 955**	12 955
Varispeed	**11 586**	11 586
Astore Africa	**8 453**	23 772
Other	**8 803**	8 803
	330 718	117 246

Goodwill arising on the acquisition of Filter & Hose Solutions and Ambro Sales includes an element of purchase consideration based on the attainment of targeted levels of profitability for the respective earn-out periods. In the case of Ambro Sales, adjustments to the related goodwill are made if interim and final targets are either not met or exceeded. Adjustments to the purchase consideration in respect of Filter & Hose Solutions will be debited or credited to profit in the future.

13. Intangible assets

R000	Customer relationships	Other	2010 Total
Cost			
Opening balance	15 924	12 144	**28 068**
Acquisition of new business	21 684	5 409	**27 093**
Closing balance	37 608	17 553	**55 161**
Accumulated amortisation			
Opening balance	5 548	1 484	**7 032**
Amortisation for the year	2 991	945	**3 936**
Closing balance	8 539	2 429	**10 968**
Accumulated impairment			
Opening balance	3 400		**3 400**
Impairment for the year	2 683	4 416	**7 099**
Closing balance	6 083	4 416	**10 499**
Net book value	22 986	10 708	**33 694**

R000	Customer relationships	Other	2009 Total
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
The initial expected useful lives are set within these ranges (years):	3-6	10-14	

Intangible assets were acquired as part of the acquisitions of businesses. The costs attributable to these assets have been determined by external valuation specialists and management, applying recognised valuation techniques. All intangible assets are tested for impairment annually.

14. Deferred taxation

14.1 Deferred taxation comprises temporary differences arising from:

	2010 R000	2009 R000
Accelerated capital allowances	**(10 027)**	(9 135)
Intangible assets	**(9 434)**	(4 938)
Calculated tax losses	**26 996**	10 103
Doubtful debt allowances	**2 542**	2 573
Leave pay accruals	**6 408**	5 890
Other	**6 319**	7 148
Net deferred taxation asset	**22 804**	11 641

	2010 R000	2009 R000
14. Deferred taxation (continued)		
14.2 Movement for the year		
Balance at the beginning of the year	11 641	(4 609)
Arising on acquisition during the year	(10 805)	
Raised during the year	21 968	16 250
Balance at end of the year	22 804	11 641

15. Inventories

	2010 R000	2009 R000
Raw materials and components	31 283	19 956
Work in progress	19 855	20 715
Finished goods	406	3 590
Merchandise	611 402	552 689
	662 946	596 950
Cost of inventory recognised as an expense in cost of sales	1 411 844	1 422 441
Inventory that is expected to be sold after more than 12 months	89 000	112 000
Write-down of inventory to net realisable value and losses of inventory	3 380	6 153
Amounts removed during the year from the cash flow hedging reserve and included in the initial cost of inventories	861	299

The group policy is to estimate, at zero net realisable value, the inventory that will eventually be scrapped, as it is rare for price reductions to result in the sale of obsolete inventory.

16. Trade and other receivables

	2010 R000	2009 R000
Trade receivables	417 456	347 766
Less: allowance for doubtful receivables	(12 291)	(12 234)
Other receivables and prepayments	17 675	20 391
	422 840	355 923
Per category:		
Loans and receivables	422 840	355 923
	422 840	355 923
Allowance for doubtful receivables:		
Opening balance	12 234	14 179
Additional allowance charged to profit	4 505	4 691
Allowance reversed to profit	(3 683)	(2 622)
Allowance utilised	(1 290)	(4 014)
Acquisition	525	
	12 291	12 234

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 R65,2 million (2009: R73,2 million) were past due but not impaired, being customers of whom there is no recent history of default and are aged as follows:

	2010 R000	2009 R000
Less than 30 days since date due	34 654	36 056
Between 31 and 60 days	15 792	18 649
Between 61 and 90 days	8 525	8 853
More than 90 days	6 201	9 639
	65 172	73 197

	2010 R000	2009 R000

17. Shareholders' equity

17.1 Authorised share capital

	2010 R000	2009 R000
40 000 000 (2009: 40 000 000) ordinary shares of 10 cents each	4 000	4 000

17.2 Issued share capital

	2010 R000	2009 R000
34 047 698 (2009: 33 747 779) ordinary shares	3 405	3 375
Less: 2 507 828 (2009: 2 507 828) ordinary shares held by subsidiary company – 7,4%	(251)	(251)
Net 31 539 870 (2009: 31 239 951) ordinary shares	3 154	3 124

17.3 Unissued shares

2 109 000 (2009: 2 409 000) unissued shares have been made available to the employee share incentive scheme (see note 17.5).

17.4 Retained income

	2010 R000	2009 R000
Income retained in:		
Company	331 544	261 056
Subsidiary companies	838 542	785 529
	1 170 086	1 046 585

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, in terms of which awards are no longer made, and the share appreciation bonus scheme. Both are equity settled.

In 2006 shareholders authorised the directors to issue up to 6 000 000 of the issued share capital in terms of all of the share-based payment plans of the company. Shares issued 10 years prior were excluded from this determination. In terms of schedule 14 of the JSE Listings Requirements, the scheme is to be amended to remove the 10 year exclusion.

	Number of shares (000) 2010	2009
Shares issued under the share option scheme		
Balance at the beginning of the year	3 591	3 623
Less: shares issued in 1999 that can be re-issued from 30 November 2009		(349)
Add: shares issued in current year	300	317
Balance at the end of the year	3 891	3 591
Options granted and deferred delivery shares not yet taken up in the share incentive scheme	109	409
Shares required to meet obligations in terms of the share appreciation bonus scheme*	703	398
Shares available to be granted in terms of both schemes in the future	1 297	1 602
Total specifically authorised to be issued in terms of all schemes	6 000	6 000

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

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.

17. Shareholders' equity (continued)

17.5 Employee share-based remuneration schemes (continued)

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)	
	2010	2009	2010	2009
Rights to shares not taken up at the beginning of the year	2 379	2 403	409	726
Shares delivered during the year	2 419	2 435	(300)	(317)
Rights to shares not taken up at the end of the year	2 268	2 379	109	409

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)
February	6 553	2 429	215
March	6 672	2 385	73
April	7 188	2 460	4
August	6 820	2 460	8
		2 419	300

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)	
	2010	2009	2010	2009
Rights not taken up at the beginning of the year	5 081	5 119	1 652	1 324
Rights granted during the year	6 809	5 050	276	579
Forfeited during the year		(5 775)		(172)
Rights exercised during the year	(3 975)	(3 975)	(30)	(79)
Rights not taken up at the end of the year	5 350	5 081	1 898	1 652
These rights may first be exercised in the financial years ending:				
November 2009	3 975	3 975	194	204
November 2010	4 172	4 157	238	258
November 2011	5 207	5 207	390	390
November 2012	5 769	5 769	323	323
November 2013	5 997	5 743	392	299
November 2014	5 648	5 050	270	178
November 2015	6 809		91	
			1 898	1 652

Participants in this scheme will receive a bonus, settled in Hudaco shares at market price, equal to the appreciation in the Hudaco share price between the date of grant (strike price) and the date of exercise, multiplied by the number of rights granted. Tranche 1 vests three years after grant, tranche 2 vests four years after grant and tranche 3 vests five years after grant. Each tranche must be taken up within 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 headline earnings per share during the period exceeding inflation plus 5%.

17. Shareholders' equity (continued)

17.5 Employee share-based remuneration schemes (continued)

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 3	Grant 4	Grant 5	Grant 6
Date of grant	17 Mar 2004	7 Jun 2006	15 Feb 2008	18 Nov 2008	1 July 2009	7 Aug 2010
Number of rights granted	1 309 000	793 500	404 767	120 800	578 500	276 333
Rights forfeited		(72 500)	(74 667)	(20 000)		
Rights taken up	(1 200 000)	(108 831)				
Rights still outstanding	109 000	612 169	330 100	100 800	578 500	276 333
Vested rights	109 000	401 833		30 000		
Unvested rights		210 336	330 100	70 800	578 500	276 333
Exercise price (R) – strike price	24,60	39,75[1]	71,45	55,40	50,50	68,09
Share price at grant date (R)	24,60	47,50	72,00	55,50	55,00	68,99
Expected volatility (%)	20	25	25	25	28	27
Expected dividend yield (%)	5,0	3,8	4,0	4,0	4,0	6,0
Risk-free rate (%)	10,2	8,2	8,6	8,7	8,6	7,3
Vesting period (years)	3 to 5	3 to 5	3 to 5	2 to 5	3 to 5	3 to 5
Estimated fair value per right (R)[2]	8,18	13,83	19,83	10,77	16,71	12,84

[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.*

	2010 R000	2009 R000
Employee share-based payment expense included in operating profit		
Expense arising from share incentive scheme		545
Expense arising from share appreciation bonus scheme	6 238	4 925
Total share-based payment expense	6 238	5 470

17. Shareholders' equity (continued)

17.6 Non-distributable reserves

R000	Special reserve account	Cash flow hedging reserve	Equity compen-sation reserves	Other share-based pay-ments	Total
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**
Balance at 30 November 2009	332	(861)	21 706	37 326	**58 503**
Increase in equity compensation reserves			5 733		**5 733**
Movement in fair value of cash flow hedges		214			**214**
Balance at 30 November 2010	332	(647)	27 439	37 326	**64 450**
Less: shares held by subsidiary company	(41)				**(41)**
Net balance at 30 November 2010	291	(647)	27 439	37 326	**64 409**

	2010 R000	2009 R000
18. Non-current liabilities		
Unlisted, subordinated debenture issued by Hudaco Trading (Pty) Limited, 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 over the group's investment in preference shares (see note 11).	**2 180 966**	2 180 966
Estimated amount due to the vendors of Filter & Hose Solutions acquired in 2010. The amount includes imputed interest at 5,5% per annum. The amount finally payable is subject to adjustment based on earnings of the business, up to August 2013, which will be debited or credited to profit when the adjustment is determined.	**118 407**	
Estimated amount due to the vendors of Ambro Sales acquired in 2008. The amount includes imputed interest at 11,5% per annum. The amount finally payable is subject to adjustment based on earnings of the business, up to November 2011, which will be debited or credited to goodwill.	**8 152**	5 041
Total interest bearing liabilities	**2 307 525**	2 186 007
Less: payable within 12 months	**27 701**	
	2 279 824	2 186 007

	2010 R000	2009 R000

19. Trade and other payables

	2010 R000	2009 R000
Trade payables	284 977	213 889
Fair value of forward exchange contracts	7 237	1 080
Other payables	127 678	110 915
	419 892	325 884

Included in other payables are payroll and other accruals.

	2010 R000	2009 R000
Per category:		
Measured at amortised cost	412 655	324 804
Derivatives used for hedging	7 237	1 080
	419 892	325 884

20. Acquisition of new business

The group acquired the business of Filter & Hose Solutions, effective 1 September 2010.

	2010 R000
Fair value of assets acquired:	
Plant and equipment	7 840
Goodwill	225 680
Intangible assets	27 093
Borrowings	(2 116)
Inventories	33 181
Trade and other receivables	38 613
Trade and other payables	(20 517)
Taxation	5
Deferred taxation	(10 805)
Net operating assets acquired	298 974
Borrowings assumed	2 116
Balance owed to vendors	(116 802)
Net cash outflow on acquisition	184 288
Profit after tax since acquisition date included in the consolidated results for the year	9 176
Turnover since acquisition date included in the consolidated results for the year	65 240
Group profit after tax had the business combination been included for the entire year	240 602
Group turnover had the business combination been included for the entire year	2 618 215

Detailed information is not yet available in respect of businesses acquired after year end as described in the directors' report.

21. Dividends

	2010 R000	2009 R000
Dividend number 46 of 235 cents per share declared on 28 January 2010	79 973	90 286
The record date was 12 March 2010 and the dividend was paid on 15 March 2010.		
Dividend number 47 of 115 cents per share declared on 15 July 2010	39 153	38 689
The record date was 20 August 2010 and the dividend was paid on 23 August 2010.		
Dividends paid to subsidiary company	(8 777)	(9 655)
	110 349	119 320

On 27 January 2011 the directors declared dividend number 48 of 235 cents per share, being the final dividend in respect of 2010. The record date will be 11 March 2011 and the dividend will be paid on 14 March 2011. This dividend has not been included as a liability in these financial statements.

	2010 R000	2009 R000
22. Notes to statement of cash flows		
22.1 Decrease in working capital		
(Increase) decrease in inventories	(32 815)	176 489
(Increase) decrease in trade and other receivables	(28 304)	151 990
Increase (decrease) in trade and other payables	73 491	(162 323)
	12 372	166 156
22.2 Finance costs		
Finance costs	(235 121)	(234 795)
Imputed on amounts due to vendors of businesses acquired	1 605	
	(233 516)	(234 795)
22.3 Taxation paid		
Amounts owed at the beginning of the year	(10 117)	(33 193)
Current tax charge	(42 890)	(38 294)
Prior year under provision	(789)	(332)
Secondary tax on companies	(1 038)	(1 164)
Foreign tax charge	(685)	(312)
Capital gains tax	(2)	(9)
Acquired during the year	5	
Amounts owed at the end of the year	5 719	10 117
	(49 797)	(63 187)
22.4 Dividends and interest received		
Dividends	200 954	202 055
Interest	17 003	4 959
Reversal of interest imputed on amounts due to vendors of businesses acquired		(3 858)
	217 957	203 156
22.5 Dividends paid		
To shareholders of the group	(110 349)	(119 320)
To non-controlling shareholders	(10 213)	(10 090)
	(120 562)	(129 410)
22.6 Cash flow per share		
Cash flow from operations	56 263	200 701
Dividends and interest received	217 957	203 156
Attributable to non-controlling shareholders	2 162	(27 294)
Cash flow from operations attributable to shareholders of the group	276 382	376 563
Cash flow per share (cents)	878	1 214

	2010 R000	2009 R000

23. Commitments and contingencies

23.1 Operating lease arrangements

The group has entered into numerous operating leases in respect of fixed property used for warehousing, offices and branch trading facilities. The leases generally have an initial three- to five-year term with options to renew at market-related rentals. Annual escalations ranging from 4% to 9% are common to all leases. No leases contain contingent rent provisions or covenants.

At the reporting date the group had outstanding commitments under these operating leases in respect of fixed properties which fall due as follows:

	2010 R000	2009 R000
Within one year	47 716	39 425
In second to fifth years	68 675	63 590
	116 391	103 015

23.2 Property, plant and equipment

The group has budgeted to spend R59 million to acquire property, plant and equipment in 2011, R31 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.

23.3 Acquisitions

At year end, heads of agreement had been signed for the acquisition, subject to certain conditions precedent, of three businesses with effect from dates after year end. The acquisition considerations are dependent on earnings over a three year period with a minimum of R111 million and maximum potential earn-out payments of a further R323 million. The minimum payments are due within one year, the earn-out payments within three years thereafter.

23.4 Pension fund contributions

The contingent liability in respect of an employer contribution holiday in a retirement fund no longer exists, as the appeal board ruled in favour of the group.

24. Financial instruments

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

24.1 Summary of financial instruments

24.1.1 Carrying value of financial instruments

	2010 R000	2009 R000
Financial assets by class – at carrying value:		
Investment in preference shares	2 180 966	2 180 966
Trade receivables	405 165	335 532
Other receivables and prepayments	17 675	20 391
Cash and cash equivalents	261 964	335 161
	2 865 770	2 872 050
Financial assets by category:		
Held to maturity financial assets	2 180 966	2 180 966
Loans and receivables	684 804	691 084
	2 865 770	2 872 050

24. Financial instruments (continued)

24.1 Summary of financial instruments (continued)

24.1.1 Carrying value of financial instruments (continued)

	2010 R000	2009 R000
Financial liabilities by class – at carrying value:		
Subordinated debenture	2 180 966	2 180 966
Amounts due to vendors of businesses acquired	126 559	5 041
Trade payables	284 977	213 889
Other payables	127 678	110 915
Fair value of forward exchange contracts	7 237	1 080
	2 727 417	2 511 891
Financial liabilities by category:		
Measured at amortised cost	2 720 180	2 510 811
Derivatives used for hedging	7 237	1 080
	2 727 417	2 511 891

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

24.1.2 Fair value of financial instruments

	2010 R000	2009 R000
Financial assets by class – at fair value:		
Investment in preference shares – including related put option	2 325 686	2 222 237
Trade receivables	405 190	335 532
Other receivables	17 650	20 391
Cash and cash equivalents	261 964	335 161
	3 010 490	2 913 321
Financial liabilities by class – at fair value:		
Subordinated debenture	2 071 834	1 911 966
Amounts due to vendors of businesses acquired	126 559	5 041
Trade payables	284 977	213 889
Other payables	127 678	110 915
Fair value of forward exchange contracts	7 237	1 080
	2 618 285	2 242 891

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 values for cash and cash equivalents, receivables and payables approximate their carrying values due to the short-term nature of these instruments. The fair values have been determined by using available market information and appropriate valuation methodologies.

24. Financial instruments (continued)

24.2 Market risk

24.2.1 Foreign currency risk

(i) Trade commitments

The group imports approximately 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 2010 the group had entered into the following forward exchange contracts relating to forecast purchase transactions, ie orders placed on suppliers but not yet shipped. These contracts for the purchase of foreign currency will be utilised for settlement of shipments received during the next two months:

	Year end spot rate	Foreign amount 000	Contract rate	Rand equivalent R000
Japanese Yen	11,79	125 808	11,87	**10 598**
US Dollar	7,08	5 421	7,02	**38 055**
Pound Sterling	11,03	622	11,13	**6 920**
Euro	9,23	3 161	9,54	**30 150**
Total cost of contracts				**85 723**
Fair value – Rand equivalent of the above contracts at year end spot rates				**85 076**
Loss recognised directly in equity on import orders (See note 17.6)				**(647)**

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 R3,8 million (2009: R4,1 million), of which R3,3 million (2009: R3,6 million) will impact profit or loss after taxation.

	2010 R000	2009 R000
Net foreign currency monetary assets		
Functional currency of group operation	**Pound Sterling**	Pound Sterling
Japanese Yen	**9 956**	9 672
US Dollar	**8 339**	8 752
Euro	**7 742**	9 385
	26 037	27 809

24. Financial instruments (continued)

24.2 Market risk (continued)

24.2.2 Interest rate risk

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

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

	Year of repayment	Fixed interest rate %	2010 R000	2009 R000
Subordinated debenture	2017	10,7	2 180 966	2 180 966
Amounts due to vendors of businesses acquired	2011	11,5	8 152	5 041
Amounts due to vendors of businesses acquired	2011–2013	5,5	118 407	

24.3 Credit risk

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

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

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

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

	2010 R000	2009 R000
Investment in preference shares	2 180 966	2 180 966
Trade receivables	405 165	335 532
Other receivables and prepayments	17 675	20 391
Cash and cash equivalents	261 964	335 161
	2 865 770	2 872 050

24.4 Liquidity risk

The group manages liquidity risk by monitoring forecast cash flows and ensuring that adequate unutilised borrowing facilities are maintained. Unutilised facilities plus available cash resources at 30 November 2010 were R507 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 2010 the group's banking facilities substantially exceeded its forecast requirements for the forthcoming year.

24. Financial instruments (continued)

24.4 Liquidity risk (continued)

The maturity profile of financial liabilities is as follows:

	Total owing 2010 R000	Repayable during the year ending 30 November 2011 R000	2012 to 2015 R000	2016 onwards R000
Subordinated debenture – repayable in full in 2017	**2 180 966**			2 180 966
Amounts due to vendors of businesses acquired	**126 559**	27 701	98 858	
Trade payables	**284 977**	284 977		
Other payables	**127 678**	127 678		
Fair value of forward exchange contracts	**7 237**	7 237		

	2010 R000	2009 R000
24.5 Fair value of financial instruments		
The loss arising on the fair value adjustment on all forward exchange contracts is set out below:		
Cash flow hedges (See note 24.2.1)	**(647)**	(861)
Fair value hedges (on contracts of R282 million at year end spot rates)	**(6 590)**	(219)
	(7 237)	(1 080)

The book value of all non-derivative financial instruments approximates their fair value at 30 November 2010.

24.6 Capital management

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

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

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

In 2007 the group raised subordinated debt within its major subsidiary to facilitate the introduction of Black Economic Empowerment shareholders. This was 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 five times by operating profit; net interest being interest paid on both subordinated and unsubordinated debt less interest and preference dividends received.

25. Retirement benefits

It 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 R23 156 000 (2009: R22 250 000). 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 funds' surplus apportionment plans have been approved by the Financial Services Board (FSB). The funds are in the process of distributing the surplus to former members.

26. Post-retirement medical costs

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

27. Directors' interests and remuneration

27.1 Interests of directors in the share capital of the company

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

	Beneficial		Non-beneficial	
	2010	2009	2010	2009
RT Vice	4 000	4 000		
SJ Connelly	308 967	175 634	1 680	1 680
CV Amoils			7 500	
GR Dunford	10 000			
GE Gardiner#	76 905	26 905		
	399 872	206 539	9 180	1 680

 # 50 000 shares are subject to a call option exercisable in September 2011.

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 2010 and the date of the notice of the annual general meeting.

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

Share incentive scheme

The directors have entered into the following deferred delivery agreements:

2010	Outstand-ing shares beginning of year	Strike price R	Delivered during the year	Delivery date	Market price on date of delivery R	Out-standing shares end of year	Date granted	Date expires	Gains on shares taken up(1) R000
SJ Connelly	133 333	24,60	133 333	Feb '10	64,88	nil	17 Mar '04	16 Mar '14	5 371
GR Dunford	10 000	24,60	10 000	Feb '10	64,88	nil	17 Mar '04	16 Mar '14	403
GE Gardiner	50 000	24,60	50 000	Feb '10	65,00	nil	17 Mar '04	16 Mar '14	2 020
Total	193 333		193 333			nil			7 794
2009									
SJ Connelly	133 333	24,60				133 333	17 Mar '04	16 Mar '14	
GR Dunford	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	100 000	24,60	100 000	July '09	58,56				3 396
Total	343 333		150 000			193 333			5 323

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 on the date the shares were delivered and the strike price.

27. Directors' interests and remuneration (continued)

27.2 Directors' interests in share incentive and share appreciation bonus schemes (continued)

Share incentive scheme

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

2010	Outstanding rights beginning of year	Strike price R	Granted during the year	Taken up during the year	Forfeited on retirement	Outstanding rights end of year	Date granted	Number of tranches	Date benefit to be determined	Gains on rights taken up[1] R000
SJ Connelly	430 000		62 500			492 500				
	175 000	39,75				175 000	06 Jul '06	3	Jul '09-Jul '13	
	100 000	71,45				100 000	15 Feb '08	3	Feb '11-Feb '15	
	155 000	50,50				155 000	01 Jul '09	3	Jul '12-Jul '16	
		68,09	62 500			62 500	07 Aug '10	3	Aug '13-Aug '17	
CV Amoils	65 000		30 000			95 000				
	65 000	50,50				65 000	01 Jul '09	3	Jul '12-Jul '16	
		68,09	30 000			30 000	07 Aug '10	3	Aug '13-Aug '17	
GR Dunford	130 000		25 500			155 500				
	65 000	39,75				65 000	06 Jul '06	3	Jul '09-Jul '13	
	20 000	71,45				20 000	15 Feb '08	3	Feb '11-Feb '15	
	45 000	50,50				45 000	01 Jul '09	3	Jul '12-Jul '16	
		68,09	25 500			25 500	07 Aug '10	3	Aug '13-Aug '17	
GE Gardiner	71 333					71 333				
	20 000	39,75				20 000	06 Jul '06	1	Jul '09-Jul '11	
	11 333	71,45				11 333	15 Feb '08	1	Feb '11-Jul '12	
	40 000	55,40				40 000	18 Jul '08	2	Jul '10-Jul '12	
Total	696 333		118 000			814 333				
2009										
SJ Connelly	275 000		155 000			430 000				
	175 000	39,75				175 000	06 Jul '06	3	Jul '09-Jul '13	
	100 000	71,45				100 000	15 Feb '08	3	Feb '11-Feb '15	
		50,50	155 000			155 000	01 Jul '09	3	Jul '12-Jul '16	
CV Amoils		50,50	65 000			65 000	01 Jul '09	3	Jul '12-Jul '16	
GR Dunford	85 000		45 000			130 000				
	65 000	39,75				65 000	06 Jul '06	3	Jul '09-Jul '13	
	20 000	71,45				20 000	15 Feb '08	3	Feb '11-Feb '15	
		50,50	45 000			45 000	01 Jul '09	3	Jul '12-Jul '16	
GE Gardiner	71 333					71 333				
	20 000	39,75				20 000	06 Jul '06	1	Jul '09-Jul '11	
	11 333	71,45				11 333	15 Feb '08	1	Feb '11-Jul '12	
	40 000	55,40				40 000	18 Nov '08	2	Jul '10-Jul '12	
PM Poole	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

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.*

27. Directors' interests and remuneration (continued)

27.3 Directors' emoluments

Non-executive directors	Base fee R000	Attendance fee R000	Special committee fees R000	Total remuneration R000
2010				
RT Vice	265	60	55	**380**
JB Gibbon	150	70	22	**242**
YKN Molefi	112	50		**162**
N Molope	115	25	15	**155**
SG Morris	135	65	66	**266**
	777	270	158	**1 205**
2009				
RT Vice	300			300
PL Campbell	52			52
JB Gibbon	200			200
YKN Molefi	138			138
N Molope	131			131
SG Morris	149			149
	970			970

Executive directors Paid by subsidiaries for managerial services	Fixed remuneration R000	Retirement fund contributions R000	Other benefits R000	Performance related remuneration R000	Total before share-based payments R000	Share-based payments[1] R000	Total remuneration R000
2010							
SJ Connelly	2 638	325	441	2 000	**5 404**	1 480	**6 884**
CV Amoils	1 402	179	296	700	**2 577**	308	**2 885**
GR Dunford	1 394	177	136	639	**2 346**	418	**2 764**
GE Gardiner[2]	1 437	192	294	1 200	**3 123**	435	**3 558**
Total	6 871	873	1 167	4 539	**13 450**	2 641	**16 091**
2009							
SJ Connelly	2 550	301	268	2 460	5 579	1 343	6 922
CV Amoils	606	72	82	498	1 258	115	1 373
GR Dunford	965	125	123	569	1 782	370	2 152
GE Gardiner	1 411	171	175	704	2 461	691	3 152
PM Poole	794	96	263	602	1 755	732	2 487
Total	6 326	765	911	4 833	12 835	3 251	16 086

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

[2]A portion of the R1,2 million performance bonus is subject to suspensive conditions.

28. Related party transactions

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

Hudaco has no holding company, nor is there a major shareholder that has a significant influence over the group. Group companies have entered into transactions in the ordinary course of business with certain financial institutions that are also shareholders, or their affiliates. In the main, these transactions relate to property leases and financial services. All such transactions have been 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 84.

Details of transactions between the group and other related parties are disclosed below.
Key management personnel are defined as executive directors of the company and members of the executive committee and include partners and children.

	2010 R000	2009 R000
Compensation of key management personnel		
Short-term employee benefits	24 360	23 003
Share-based payments[1]	4 088	4 850
	28 448	27 853

Included in the above are the top three highest earners in the group, who are not directors:

	Fixed remun-eration R000	Retirement fund contri-butions R000	Other benefits R000	Perfor-mance related remune-ration R000	Total before share-based payments R000	Share-based payments[1] R000	Total remune-ration 2010 R000	Total remune-ration 2009 R000
Employee 1	1 028	136	261	993	2 418	296	2 714	2 249
Employee 2	977	138	239	833	2 187	250	2 437	2 128
Employee 3	940	132	275	484	1 831	350	2 181	2 067
Total	2 945	406	775	2 310	6 436	896	7 332	6 444

Share incentive scheme

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

2010	Outstand-ing rights beginning of year	Strike price R	Granted during the year	Taken up during the year	Forfeited on retire-ment	Out-standing rights end of year	Date granted	Number of tranches	Date benefit to be determined	Gains on rights taken up[1] R000
Employee 1	96 000					96 000				
	50 000	39,75				50 000	06 Jul '06	3	Jul '09-Jul '13	
	21 000	71,45				21 000	15 Feb '08	3	Feb '11-Mar '14	
	25 000	50,50				25 000	01 Jul '09	2	Jul '12-Mar '14	
Employee 2	55 467					55 467				
	22 000	39,75				22 000	06 Jul '06	2	Jul '09-Jul '12	
	12 467	71,45				12 467	15 Feb '08	2	Feb '11-Aug '13	
	11 000	55,40				11 000	18 Nov '08	1	Jul '12-Aug '13	
	10 000	50,50				10 000	01 Jul '09	1	Jul '12-Aug '13	
Employee 3	110 000		16 500			126 500				
	55 000	39,75				55 000	06 Jul '06	3	Jul '09-Jul '13	
	20 000	71,45				20 000	15 Feb '08	3	Feb '11-Feb '15	
	35 000	50,50				35 000	01 Jul '09	3	Jul '12-Jul '16	
		68,09	16 500			16 500	07 Aug '10	3	Aug '13-Aug '17	
Total	261 467		16 500			277 967				

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

28. Related party transactions (continued)

Directors

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

	2010 R000	2009 R000
Interests in contracts and transactions with key management personnel		
Goods sold to key management at staff prices	90	5
Goods bought from companies controlled by key management	31	192
Goods sold to companies controlled by key management	369	203

GR Dunford, an executive director as well as a member of the executive committee, is a 90% shareholder of the landlord of premises occupied by Bauer and a Powermite branch. Rental paid in respect of Bauer amounted to R1 067 460 (2009: R849 800). This lease expires on 31 December 2011. Rental paid in respect of the Powermite branch amounted to R321 828 (2009: R292 572). 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 information

R million	Group 2010	Group 2009	Head office, shared services and eliminations 2010	Head office, shared services and eliminations 2009	Engineering consumables 2010	Engineering consumables 2009	Consumer related products 2010	Consumer related products 2009
Statement of net income								
Turnover	**2 458**	2 420	**(8)**	(11)	**1 750**	1 711	**716**	720
– Ongoing operations	**2 393**	2 420	**(8)**	(11)	**1 685**	1 711	**716**	720
– Operations acquired in 2010	**65**				**65**			
EBITDA	**322**	329	**(23)**	(26)	**224**	241	**121**	114
Depreciation less recoupments	**18**	18			**14**	13	**4**	5
Amortisation of intangible assets	**4**	4			**4**	3		1
Operating profit	**300**	307	**(23)**	(26)	**206**	225	**117**	108
– Ongoing operations	**286**	307	**(23)**	(26)	**192**	225	**117**	108
– Operations acquired in 2010	**14**				**14**			
Net surplus on disposal of business		1				1		
Impairment of goodwill and intangible assets	**(22)**	(8)			**(22)**	(8)		
Profit before interest and dividends received	**278**	300	**(23)**	(26)	**184**	218	**117**	108
Statement of financial position								
Property, plant and equipment	**131**	91		1	**113**	71	**18**	19
Goodwill	**331**	117	**(1)**	(3)	**303**	90	**29**	30
Intangible assets	**34**	18			**34**	18		
Deferred taxation – net	**23**	11	**31**	12	**(11)**	(4)	**3**	3
Inventories	**663**	597			**509**	455	**154**	142
Trade and other receivables	**423**	356		3	**302**	240	**121**	113
Trade and other payables	**(420)**	(326)	**(15)**	(2)	**(273)**	(228)	**(132)**	(96)
Taxation	**(6)**	(10)	**39**	40	**(25)**	(32)	**(20)**	(18)
Net operating assets	**1 179**	854	**54**	51	**952**	610	**173**	193
Additional information								
Average net operating assets	**948**	1 015	**38**	18	**728**	764	**182**	233
Capital expenditure	**52**	20			**49**	14	**3**	6
Operating profit margin (%)	**12,2**	12,7			**11,8**	13,2	**16,3**	15,0
Return on average net operating assets (%)	**31,6**	30,2			**28,3**	29,5	**64,3**	46,4
Number of employees	**2 415**	2 310	**22**	23	**1 853**	1 736	**540**	551

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

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

Hudaco Industries Limited

Statement of financial position
at 30 November 2010

	2010 R000	2009 R000	2008 R000
Assets			
Non-current assets			
Interest in subsidiary companies (note 1)	385 219	306 214	276 131
Current assets	308	1 309	386
Receivables	301	655	368
Cash and cash equivalents	7	654	18
Total assets	385 527	307 523	276 517
Equity and liabilities			
Shareholders' equity	384 431	306 686	273 138
Current liabilities			
Payables and taxation	1 096	837	3 379
Total equity and liabilities	385 527	307 523	276 517

Statement of comprehensive income
for the year ended 30 November 2010

	2010 R000	2009 R000	2008 R000
Dividends received from subsidiaries	192 000	156 948	218 092
Operating costs	2 174	1 906	1 386
Profit before taxation	189 826	155 042	216 706
Taxation – South African normal tax	212	236	2 599
Profit after taxation	189 614	154 806	214 107

Statement of changes in equity
for the year ended 30 November 2010

	Share capital R000	Share premium R000	Special reserve account* R000	Retained income R000	Share-holders' equity R000
Balance at 30 November 2008, as stated previously	3 343	34 238	332	191 769	229 682
Prior year adjustment (note 3)				43 456	43 456
Balance at 30 November 2008, as restated	3 343	34 238	332	235 225	273 138
Profit after taxation				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, as restated	3 375	41 923	332	261 056	306 686
Profit after taxation				189 614	189 614
Issue of 299 919 shares	30	7 227			7 257
Dividends to shareholders				(110 349)	(110 349)
Dividends to subsidiary company				(8 777)	(8 777)
Balance at 30 November 2010	3 405	49 150	332	331 544	384 431

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

	2010 R000	2009 R000	2008 R000

Statement of cash flows

for the year ended 30 November 2010

	2010 R000	2009 R000	2008 R000
Cash generated from operating activities			
Dividends received	192 000	156 948	218 092
Operating costs paid	(2 174)	(1 906)	(1 386)
Decrease (increase) in working capital	692	(545)	260
Cash generated from operating activities	190 518	154 497	216 966
Taxation paid	(291)	(2 520)	(431)
Cash flow from operations	190 227	151 977	216 535
Dividends	(119 126)	(128 975)	(218 102)
Net cash retained (applied)	71 101	23 002	(1 567)
Cash applied to investment activities			
Increase in loans to subsidiary companies	(79 005)	(30 083)	(2 582)
Net cash applied	(7 904)	(7 081)	(4 149)
Cash flow from financing activities			
Proceeds from the issue of shares	7 257	7 717	4 138
Decrease (increase) in cash and cash equivalents	647	(636)	11
Net financing raised	7 904	7 081	4 149

Notes to the company financial statements

1. Interest in subsidiary companies

	2010 R000	2009 R000	2008 R000
Shares at cost less amounts written off	134 956	134 956	134 956
Net loans to subsidiaries	250 263	171 258	141 175
Loans to subsidiaries	250 263	171 561	141 255
Loans from subsidiaries		(303)	(80)
	385 219	306 214	276 131

These loans are unsecured, interest free and repayable at the discretion of the subsidiary.

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

2. Auditors' remuneration

	2010 R000	2009 R000	2008 R000
Audit fees for the current year	92	90	80

3. Prior year adjustment

A subsidiary of the company declared a dividend of R43,5 million during 2008 to the company. The company did not account for this dividend. The effect of this adjustment was to increase both the interest in subsidiaries and retained income by R43,5 million.

4. Contingent liability

The company has guaranteed the senior banking facilities of Hudaco Trading (Pty) Limited. The maximum exposure in this regard is approximately R460 million and the exposure is R26 million at the year end.

Principal subsidiaries

as at 30 November 2010

	Issued share capital 2010 R unless indicated otherwise	Group's effective interest 2010 %	Group's effective interest 2009 %	Interest of holding company: Book value of shares 2010 R000	Book value of shares 2009 R000	Loans owing by (to) 2010 R000	Loans owing by (to) 2009 R000
Principal subsidiaries							
Hudaco Trading (Pty)) Limited	2000	85[1]	85[1]	2	2		(303)
Operating divisions							
Abes Technoseal							
Ambro Sales							
Ampco							
Angus Hawken							
Astore Africa							
Bauer Geared Motors							
Bearings International							
Belting Supply Services							
Bosworth							
Elvey Security Technologies							
Ernest Lowe							
Filter & Hose Solutions							
Powermite							
Rutherford							
Varispeed							
Hudaco Investment Company Limited	26 160	100	100	48 158	48 158	250 150	171 448
Barbara Road Investments (Pty) Limited	100	100	100				
DD Power Holdings (Pty) Limited	300 000	70[2]	70[2]				
DD Power (Pty) Limited	7 450 000	70	70				
Quadrant Investments Limited (Guernsey)	$7 424	100	100	42 681	42 681	113	113
Smithford Company Limited (Guernsey)	£1 312	100	100				
Valhold Limited	959 841	100	100	37 692	37 692		
Valard Limited	874 149	100	100	6 423	6 423		
Interest in subsidiaries				134 956	134 956	250 263	171 258

[1] 15% of the shares in Hudaco Trading (Pty) Limited 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) Limited are held by Deutz AG.

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

Shareholder analysis

as at 26 November 2010

Shareholder analysis	Number of shares	% of issued shares	Number of shareholders
Portfolio size			
1 – 1 000 shares	708 024	2,24	1 777
1 001 – 5 000 shares	1 579 336	5,03	624
5 001 – 10 000 shares	1 032 180	3,27	133
10 001 – 100 000 shares	6 705 128	13,30	189
Over 100 000	21 515 202	76,16	59
Total[1]	31 539 870	100,00	2 782
Category			
Banks and nominee companies	4 432 363	14,05	476
Financial institutions and pension funds	16 957 696	53,76	189
Individuals	3 365 531	10,68	1 887
Other corporate bodies	6 784 280	21,51	230
Total[1]	31 539 870	100,00	2 782
Shareholder spread			
Public	26 701 465	84,66	2 754
Non-public	4 838 405	15,34	28
Directors and associates[2]	884 831	2,81	26
Strategic holdings (more than 10%)	3 949 374	12,52	1
Share trust	4 200	0,01	1
Total[1]	31 539 870	100,00	2 782

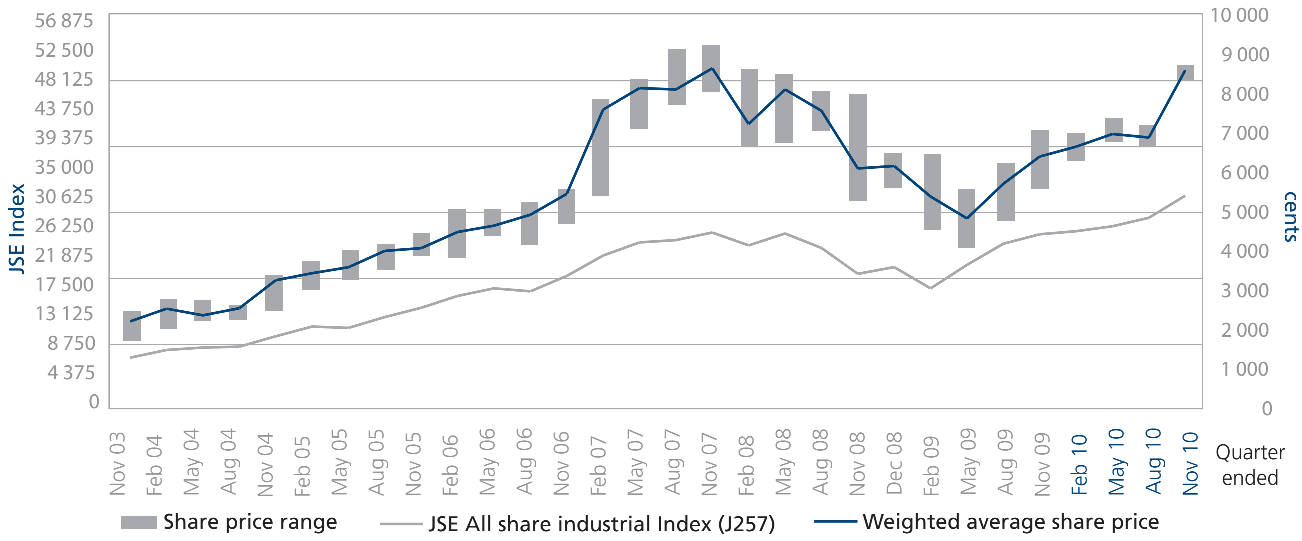
	Number of shares held	% of issued share capital
Major shareholders		
Beneficial shareholders holding more than 3%		
Old Mutual Life Assurance Co SA	3 949 374	12,52
Government Employees Pension Fund	2 071 999	6,57
Nedgroup Investments Rainmaker Fund	1 300 000	4,12
Nedgroup Investments Value Fund	1 130 000	3,58
Fund managers holding more than 3%		
Old Mutual Investment Group (South Africa) (Pty) Limited	10 720 920	33,99
Abax Investments (Pty) Limited	3 756 644	11,91
Investec Asset Management	2 260 614	7,17
Sanlam Investment Management	1 980 000	6,28
Foord Asset Management (Pty) Limited	1 696 442	5,38
RMB Asset Management	1 648 339	5,23
Peregrine Capital (Pty) Limited	1 562 146	4,95
Melville Douglas Investment Management (Pty) Limited	1 038 450	3,29

[1] Excludes 2 507 828 shares held by a subsidiary company.
[2] A list of shareholdings of senior management is available on request from the group secretary.

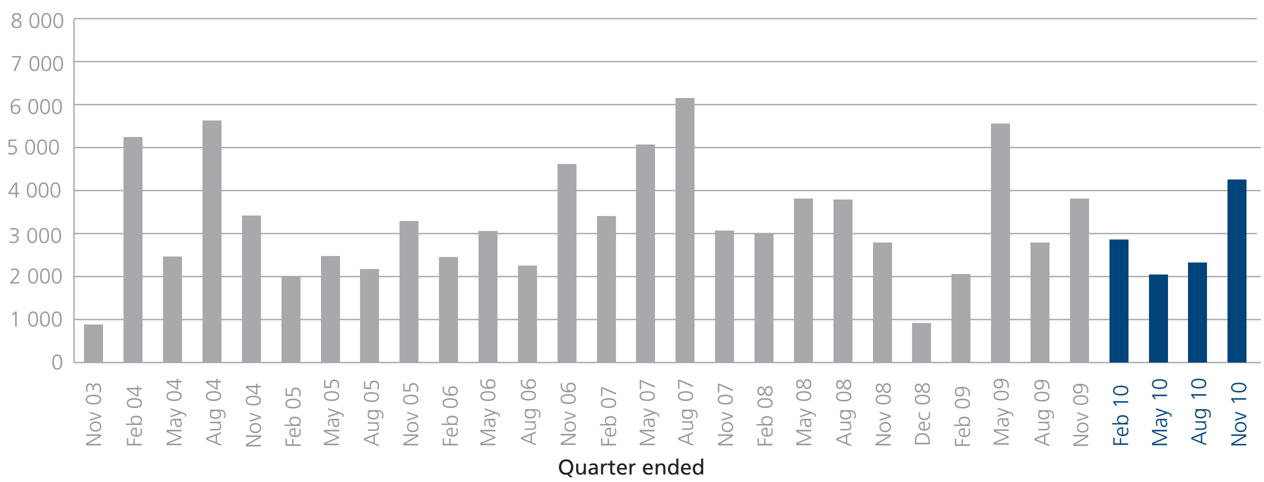
Share information

for the year ended 30 November 2010

Share price history



Volume traded on JSE (000)



JSE statistics	2010	2009	2008	2007	2006	2005	2004
Market price (cents)	8 501	6 600	5 600	8 500	5 400	3 985	3 290
NAV per share (cents)	4 080	3 681	3 282	2 623	2 429	2 056	1 720
Number of shares in issue (000)*	31 540	31 240	30 923	30 754	29 993	29 756	29 438
Market capitalisation (Rm)*	2 681	2 062	1 732	2 614	1 620	1 186	968
Price: earnings ratio (times)	10,9	7,2	8,1	14,3	12,4	10,2	8,6
All Share Industrial Index PE ratio (J257)	17,3	15,9	11,4	16,3	15,4	13,3	13,4
Dividend yield (%)	4,1	5,8	5,8	2,4	2,8	3,4	3,8
All Share Industrial Index dividend yield (J257) (%)	2,1	2,2	3,6	1,9	2,1	2,2	2,1
Annual trade in Hudaco shares							
Number of transactions recorded	5 506	4 963	4 966	4 967	3 081	2 919	3 076
Volume of shares traded (000)	11 461	15 113	13 355	17 682	12 362	9 923	16 744
% of issued shares traded*	36	48	43	54	41	33	57
Value of shares traded (R000)	822 114	791 079	973 776	1 389 609	584 747	369 207	412 704

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

Notice of annual general meeting

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

Notice is hereby given that the 26th annual general meeting of shareholders of Hudaco Industries Limited will be held at Greenstone Hill Office Park, Building 9, Emerald Boulevard, Greenstone Hill, Edenvale, Gauteng at 11:00 on Thursday, 24 March 2011, for the following purposes:

1. To receive, consider and adopt the annual financial statements for the year ended 30 November 2010.

2. To elect directors of the company, namely:
   - Mr GR Dunford
   - Mr SG Morris

   Mr GR Dunford's appointment is being ratified in terms of the articles of association by reason of him having been appointed by the board subsequent to the last annual general meeting, and Mr SG Morris retires by rotation in terms of the company's articles of association but, being eligible, offers himself for re-election.

   A brief *curriculum vitae* in respect of each director mentioned above is contained on pages 4 to 5 of this annual report.

3. To approve the remuneration of non-executive directors for the financial year ending 30 November 2011 on the following basis:

	Proposed 2011		2010	
	Base fee	Attendance fee per normal meeting	Base fee	Attendance fee per normal meeting
Board				
Chairman of the board	R420 000	R20 000	R265 000	R15 000
Board member	R100 000	R15 000	R80 000	R10 000
Audit and risk management committee				
Chairman of the committee	R90 000	R15 000	R70 000	R10 000
Committee member	R45 000	R10 000	R35 000	R5 000
Remuneration and nomination committee				
Chairman	R90 000			
Committee member	R25 000	R10 000	R20 000	R5 000

4. To re-appoint Grant Thornton, upon the recommendation of the current audit and risk management committee, as independent auditor of Hudaco and to note that the individual registered auditor who will undertake the audit for the financial year ending 30 November 2011 is Mr C Botha.

   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**
   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, or any other legislation by which it may be superseded (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 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.

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, 5 and 6;
- major beneficial shareholders – page 85;
- directors' interests in securities – pages 76 to 77.
- share capital of the company – note 17 on page 65.

Litigation statement

In terms of section 11.26 of the JSE Listings Requirements, the directors, whose names appear on pages 4 to 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, that may have or had in the recent past, being at least the previous 12 months, a material effect on the Hudaco group's financial position.

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 up to 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.

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

6. Ordinary resolution number 1 – compliance with the new Schedule 14 of the JSE Listings Requirements

That the shareholders approve the following amendments to be made to The Hudaco Industries Limited Share Appreciation Plan (the Plan), in order to achieve compliance with the new Schedule 14 of the JSE Listings Requirements:

Clause 1.1.15 be amended by the deletion of the words **"be a date determined by the board"** and replacing the word **"occurring"** with **"occur"** in the fourth line of the sentence.

Clause 1.1.29 be amended by the insertion of the words **"which is after the age of 63 but not later than age 65"** at the end of the sentence.

Clause 1.1.32.2 be amended by the deletion of the words **"if the Board so elects at any time prior to the Determination Date"** at the beginning of the sentence.

Clause 3.1 be amended as follows:
- by the deletion of the words "**18,4% of the Company's issued ordinary share capital**" in the first sentence and the insertion of the words **"8 000 000 issued ordinary Shares"** in their stead
- by the deletion of the second sentence reading "**As at 15 February 2006 the Company's issued share capital was 32 626 979 Shares, 18,4% thereof being 6 000 000 Shares**".

The reason for increasing the maximum number of shares to 8 000 000 is because Schedule 14 precludes the roll over of shares after 10 years and that provision in the Hudaco Plan is to be deleted.

Clause 3.2 be amended as follows:
- by the deletion of the words "**2,95% of the Company's issued ordinary share capital**" in the first sentence and the insertion of the words **"962 000 issued ordinary Shares"** in their stead
- by the deletion of the second sentence reading "**As at 15 February 2006 the Company's issued ordinary share capital was 32 626 979 Shares, 2,95% thereof being 962 000 Shares**".

Clause 3.3 be amended by the deletion of the words **"conversion, redemption"** as well as **"provided that the provisions of this Deed shall be deemed not to have been breached if, as a result of a purchase or repurchase (as the case may be) of Shares by any company within the Group, the percentages referred to in 3.1 and/or 3.2 are exceeded but the number of Shares referred to in 3.1 and/or 3.2 is not exceeded.**"

Clause 3.4 be deleted and replaced with: "**Rolling over of shares which have already been issued in terms of the Plan is prohibited.**"

Clause 7.4 be deleted in its entirety.

Clause 7.6 be amended by the deletion of the word **"two"** in clauses 7.6, 7.6.1 and 7.6.2 and the insertion of the word **"four"** in its stead.

Clause 8.2.4.2 be amended by the deletion of the words **"(or a greater number if Remco so determines)"** in the fourth line of the sentence.

Clause 12.1 be amended by the following:
- the insertion of the words **"which would require no less than 75% approval"** at the end of the sentence
- the insertion of the following clauses after clause 12.1.6:

"12.1.7 the voting, dividend, transfer and other rights, including those arising on a liquidation of the Company, attaching to the Share Appreciation Rights;
12.1.8 the basis upon which awards are made;
12.1.9 the treatment of Share Appreciation Rights (vested and unvested) in instances of mergers, takeovers or corporate actions;
12.1.10 the rights of Participants who leave the employment of the Employer Company whether by termination, resignation, retirement or death insofar as their early departure from the Plan;
12.1.11 the fact that there shall be no consideration payable for the making of an allocation."

The Plan will be available for inspection during normal business hours at the registered office of the company from the date of issue of the annual report of which this notice forms part, up to the date of the annual general meeting.

Ordinary resolution 1 is required, under the JSE Listings Requirements, to be passed by 75% majority votes cast in favour of such resolution by all members present or represented by proxy and entitled to vote at the annual general meeting, excluding the votes attaching to all shares owned or controlled by persons who are existing participants of the Plan.

Salient features of the Plan
- The purpose of the Plan is to attract, retain, motivate and reward employees of the Hudaco group who are able to influence the performance of the group, on a basis which aligns the interests of such participants with those of the Hudaco group and Hudaco's shareholders.
- Hudaco's remuneration and nomination committee is empowered to grant share appreciation rights to qualifying participants from time to time.
- The performance requirement for awards to vest is set by Hudaco's remuneration and nomination committee.
- Participants 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 four years of vesting.

- 8 000 000 ordinary issued ordinary shares of 10 cents per share may be used for the utilisation of the Plan.
- The maximum number of rights that may be held by any one participant may not exceed 962 000 issued ordinary shares.
- If a participant's employment terminates by reason of retirement at normal retirement date or due to ill health or disability, all of his rights which were capable of being exercised on the date of his retirement may be exercised.
- In general, a participant's rights in terms of the Plan will be adjusted to recognise the impact of any capitalisation issues, sub-division or consolidation of ordinary shares, any reduction in the ordinary share capital of the company or special dividends or distributions.
- If Hudaco undergoes a change of control, all the allocated rights may be determined as exercisable.

7. **Ordinary resolution number 2 – Hudaco Remuneration Policy**
   That shareholders endorse, through a non-binding advisory vote to ascertain the shareholders' view, Hudaco's remuneration policy and its implementation. Hudaco's remuneration report is set out on pages 28 to 31 of this annual report.

8. **Ordinary resolution number 3 – signature of documents**
   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.

Explanatory notes

Explanatory notes to the notice of the meeting are available on the Hudaco website: www.hudaco.co.za.

Voting and proxies

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

The attached form of proxy is to be completed only by those shareholders who are:
- holding the company's ordinary shares in certificated form, or
- recorded on the electronic sub-register in "own name" dematerialised form.

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

Completed forms of proxy should be returned to the transfer secretaries, Computershare Investor Services (Proprietary) Limited, Ground Floor, 70 Marshall Street, Johannesburg, 2001 (PO Box 61051, Marshalltown, 2107), so as to reach them by no later than 11:00 on Wednesday, 23 March 2011.

By order of the board.

R Wolmarans
Group secretary
27 January 2011

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

Corporate information

Hudaco Industries Limited

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

Registered and business address
Greenstone Hill Office Park
1st Floor, Building 9
Emerald Boulevard
Greenstone Hill
Edenvale, 1609
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
FirstRand Bank Limited
Nedbank Limited
The Standard Bank of South Africa Limited

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

Shareholders' diary

Financial year end	30 November
Annual general meeting	24 March 2011
Reports and financial statements	
Preliminary report and final dividend announcement	28 January 2011
Annual financial statements (mailed to shareholders)	February 2011
Interim report and interim dividend announcement	last week in June
Dividend payment details	
Payment of final dividend	14 March 2011
Payment of interim dividend	third week August

Group directory

Division	Business name	Principal activities	Address	Contact	
Engineering consumables					
Bearings	Bearings International	Distributor of bearings, seals, electric motors and transmission products	Merlin Street Lancaster Park Parkhaven X5 Boksburg	Tel Fax E-mail	011 345 8000 011 974 7200 info@bearings.co.za
Diesel engines and spares	Deutz Dieselpower	Distributor of Deutz diesel engines and Deutz spare parts and the provision of service support	5 Tunney Road Elandsfontein	Tel Fax E-mail	011 923 0600 011 923 0611 info@deutz.co.za
Power transmission					
	Ambro Sales	Distributor of special solid and hollow round steel	Cnr Lamp and Snapper Roads Wadeville	Tel Fax E-mail	011 824 4242 011 824 4864 sharona@ambro.co.za
	Ampco	Manufacturer of industrial plugs and sockets	Ampco House 1262 Anvil Road, Robertville X 12 Roodepoort	Tel Fax E-mail	011 474 9578 011 474 8748 info@ampco.co.za
	Astore Africa	Distributor of specialised thermoplastic pipes and fittings	46 Paul Smit Street Anderbolt Boksburg	Tel Fax E-mail	011 892 1714 011 892 2781 info@astore.co.za
	Bauer Geared Motors	Distributor of geared motors, helical gearboxes, frequency inverters and electric motors	72 Acacia Road Cnr Barbara Road Primrose	Tel Fax E-mail	011 828 9715 011 822 4135 home@gbauer.co.za
	Belting Supply Services	Distributor of conveyor belting, industrial hose, fluid sealing and process control products	15 Fortune Road City Deep	Tel Fax E-mail	011 610 5600 011 610 5700 info@belting.co.za
	Bosworth	Manufacturer of conveyor drive pulleys, forgings and rollings	Cnr Vereeniging and Juyn Roads Alrode	Tel Fax E-mail	011 864 1643 011 908 5728 pulleys@bosworth.co.za
	Ernest Lowe	Manufacturer of hydraulic and pneumatic equipment	6 Skew Road, Boksburg North	Tel Fax E-mail	011 898 6600 011 918 3974 corporate@elco.co.za
	Filter & Hose Solutions	Distributor of filters for earthmoving equipment and industrial hose	160 Francis Road Anderbolt Boksburg North	Tel Fax E-mail	0861 347 789 011 894 5832 sales@fhs.co.za
	Midrand Special Steels	Distributor of special round and hexagon steel	118 Sarel Baard Crescent Gateway Industrial Park Centurion	Tel Fax E-mail	012 661 7609 012 661 7607 info@mssteel.co.za
	Powermite	Distributor of electric cabling, plugs, sockets, electric feeder systems and crane materials	92 Main Reef Road Technikon Roodepoort	Tel Fax E-mail	011 271 0000 011 760 3099 powermite.jhb@global.co.za
	Varispeed	Distributor of controllers, monitors and regulators of the speed of standard AC motors	4 Clovelly Business Park 342 Old Pretoria Main Road, Midrand	Tel Fax E-mail	011 312 5252 011 312 5262 drives@varispeed.co.za
Consumer related products					
Power tools	Rutherford	Distributor of power tools and marine engines	77 Smits Street Industries West	Tel Fax E-mail	011 878 2600 011 873 1689 karen@rutherford.co.za
Security equipment	Elvey Security Technologies	Distributor of intruder detection, access control, related CCTV equipment and fibre-optics	65 Julbert Road Benrose	Tel Fax E-mail	011 401 6700 011 401 6753 sales@elvey.co.za
Automotive	Abes Technoseal	Distributor of clutch kits, automotive ignition leads, oil and hydraulic seals	10 Wankel Street Jet Park	Tel Fax E-mail	011 397 4070 011 397 4326 info@abes.co.za
	Angus Hawken	Manufacturer of oil seals	13 Bodirelo Mogwase	Tel Fax	014 558 2756 014 558 2425
Group head office	Hudaco Industries Hudaco Trading		Greenstone Hill Office Park Building 9 Emerald Boulevard Greenstone Hill Edenvale	Tel Fax E-mail Website	011 345 8200 011 392 2740 info@hudaco.co.za www.hudaco.co.za

Executives

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

ince.motiv

Hudaco

www.hudaco.co.za

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 sixth annual general meeting – for use by certificated ordinary shareholders and dematerialised shareholders with own name registration only (see overleaf, note 1)

To be received by no later than 11:00 on Wednesday, 23 March 2011.

For use by members of Hudaco at the annual general meeting of Hudaco to be held on **Thursday, 24 March 2011** at Greenstone Hill Office Park, Building 9, Emerald Boulevard, Greenstone Hill, Edenvale, Gauteng (the annual general meeting) at 11:00.

I/We

of (address)

(please print)

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

1. or failing him,

2. or failing him,

3. the Chairman of the annual general meeting

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

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

		Number of ordinary shares		
Resolution		For	Against	Abstain
1.	To receive and adopt the annual financial statements			
2.	To re-elect retiring directors:			
	2.1 GR Dunford			
	2.2 SG Morris			
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.	Approval of the amendments to the Hudaco Industries Limited Share Appreciation Plan			
7.	Endorsement of Hudaco's remuneration policy			
8.	Authorise directors to give effect to resolutions			

Signed at on 2011

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 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 initialled by the signatories.

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

9. Where there are joint 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 (PO Box 61051, Marshalltown, 2107), so as to reach them by no later than Wednesday, 23 March 2011 at 11:00.

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

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