Hudaco



Hudaco Annual Report

30 November 2004

Hudaco

"Value added distribution – our core competency"

Contents

Profile

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

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

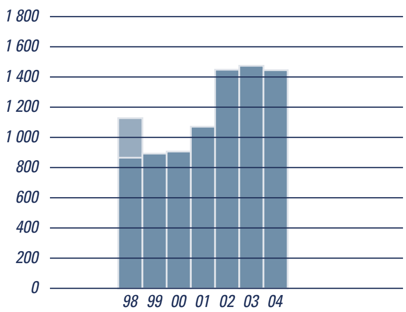
Hudaco sources branded products, mainly on an exclusive basis, directly from leading international manufacturers and to a lesser extent from local manufacturers. Hudaco seeks out niche areas in markets where customers need, and are prepared to pay for, the *value* Hudaco adds to the products it distributes. The value added includes product specification, application and installation training, and troubleshooting combined with ready availability and a competitive price.

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

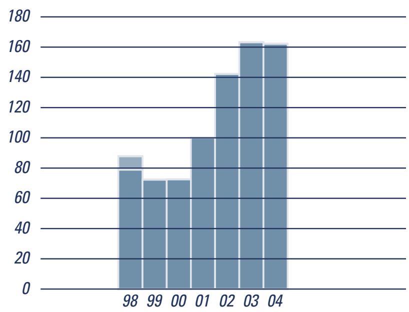
Results in brief

30 November	**2004**	2003	% change
Turnover (Rm)	**1 448**	1 477	(2)
Operating profit (Rm)	**162**	163	(1)
Headline earnings (Rm)	**109**	105	3
Attributable earnings (Rm)	**89**	100	(11)
Headline earnings per share (cents)	**371**	365	2
Dividends per share (cents)	**128**	122	5

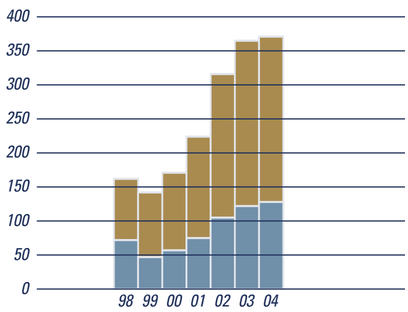
Turnover – Rm



Operating profit – Rm



Earnings per share – cents



Transportation motor spares (sold in November 1998)

EPS before exceptional items

Distribution per share

"15% compound increase in headline earnings per share over the last six years"

Mission

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 providing our **customers** with products and services of superior quality.

We establish enduring partnerships with our **suppliers** in order to combine 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 dynamic and challenging business environment.

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

History of Hudaco Industries

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 113 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 former Transvaal and Rhodesia.

In 1897 he established himself in Simmonds Street with a staff compliment 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 1974 Blue Circle Limited, a United Kingdom industrial group, acquired a substantial interest in the company and in 1977 it became a wholly owned subsidiary and delisted from the stock exchange. During the 1970's Hubert Davies expanded its product offering and its branch network to cover the whole of South Africa and all countries of the subcontinent. In 1976 a strategic decision was made to specialise by product and activity in order to provide better customer service and achieve improved market penetration. This decision also saw the introduction of the company's existing management philosophy of decentralisation of decision-making and responsibility.

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, which was up until then, the largest South African leveraged buy-out. On 14 November 1985 Hudaco Industries Limited relisted on the Johannesburg Stock Exchange at a subscription price of R1,50 per share and 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 distribution business. Today the group employs over 1 800 people, its market capitalisation is more than R900 million and its principal shareholders are in the retirement investment industry.

Seven-year review

R million	**2004**	2003	2002	2001	2000	1999	1998
Group income statement							
Turnover	**1 448**	1 477	1 451	1 073	908	895	1 127
Operating profit	**162**	163	142	100	73	72	88
Net finance revenue (costs)	**6**	(1)	(8)	(4)	(2)	(11)	(12)
Profit before taxation	**168**	162	134	96	71	61	76
Taxation	**54**	52	44	28	17	16	20
Profit after taxation	**114**	110	90	68	54	45	56
Share of associate company profits			2	2	2	3	
Outside shareholders' interest	**5**	5	3	7	5	6	8
Earnings before exceptional/capital items	**109**	105	89	63	51	42	48
Exceptional/capital items – net	**20**	5	5	4		3	1
Attributable earnings	**89**	100	84	59	51	39	47
Shares in issue 000 (weighted average)	**29 289**	28 776	28 264	27 892	29 682	29 912	29 810
Earnings per share (cents)							
– before exceptional items	**371**	365	316	224	171	142	162
– basic	**303**	347	297	210	171	132	159
Distributions per share (cents)	**128**	122	105	75	57	47	72
Group balance sheet							
Property, plant and equipment	**43**	44	45	40	39	43	50
Goodwill	**46**	56	47	20			
Deferred taxation – net	**16**	15	17	4	2	2	2
Inventories	**285**	320	315	260	244	238	288
Accounts receivable	**245**	239	251	226	178	180	179
Accounts payable	**(260)**	(238)	(250)	(235)	(177)	(153)	(180)
Taxation	**(25)**	(37)	(46)	(29)	(16)	(15)	(24)
Net operating assets	**350**	399	379	286	270	295	315
Investment in associate				25	24	23	23
Employment of capital	**350**	399	379	311	294	318	338
Shareholders' equity and loan units	**512**	458	396	333	290	277	257
Outside shareholders' interest	**26**	24	20	38	33	30	29
Total shareholders' funds	**538**	482	416	371	323	307	286
Amounts due to vendors on acquisitions	**12**	21	19	4		23	23
Net (cash)	**(200)**	(104)	(56)	(64)	(29)	(12)	29
Total capital employed	**350**	399	379	311	294	318	338
Group cash flow							
Cash generated from trading	**175**	177	160	110	83	72	103
Decrease in working capital	**39**	(12)	(56)	22	(4)	25	(7)
Cash generated from operating activities	**214**	165	104	132	79	97	96
Net finance costs paid	**6**	(1)	(7)	(4)	(2)	(10)	(12)
Taxation paid	**(63)**	(56)	(41)	(18)	(16)	(21)	(23)
Cash flow from operations	**157**	108	56	110	61	66	61
Cash distributions to shareholders	**(39)**	(33)	(45)	(17)	(17)	(21)	(35)
Retained from operating activities	**118**	75	11	93	44	45	26
Net investment in							
– new businesses etc	**(11)**	(17)	(3)	(49)		(1)	2
– property, plant and equipment	**(14)**	(12)	(17)	(10)	(8)	(3)	(9)
Net cash invested	**(25)**	29	(20)	(59)	(8)	(4)	(7)
Cash retained after investments	**93**	46	(9)	34	36	41	19
Increase in shareholder funding	**3**	2	2	1	1	1	
Shares repurchased					(21)		
Increase in net cash	**96**	48	(7)	35	16	42	19

Group at a glance

Bearings and transmission products

Principal activity

The distribution of leading brands of anti-friction bearings, geared motors, belting, chain, hydraulics, pneumatics, seals, variable speed drives and clutches to the manufacturing, mining, agricultural and automotive after-markets.

Principal businesses

Abes Technoseal
Bauer Geared Motors
Bearings International
Belting Supply Services
Bosworth (90% owned)
Ernest Lowe
PHC Clutch
Varispeed

Powered products

Principal activity

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

Principal businesses

Deutz Dieselpower (70% owned)
Rutherford

Security equipment

Principal activity

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

Principal businesses

Elvey Security Technologies (South Africa and United Kingdom)

Bearings and transmission products	**2004 Rm**	2003 Rm
Turnover	**791**	828
Operating profit	**95**	98
Average net operating assets	**234**	236
Number of employees	**1 391**	1 303

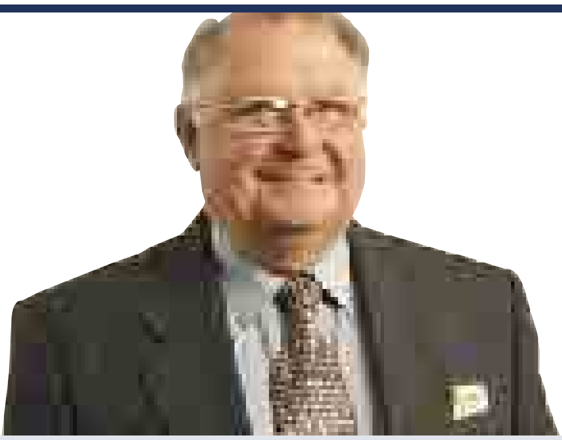
Powered products	**2004 Rm**	2003 Rm
Turnover	**350**	325
Operating profit	**60**	48
Average net operating assets	**63**	69
Number of employees	**276**	283

Security equipment	**2004 Rm**	2003 Rm
Turnover	**230**	233
Operating profit	**18**	21
Average net operating assets	**78**	89
Number of employees	**152**	142

Hudaco

	Head office and intergroup		**Operation discontinued in 2004**		**Group**	
	2004	2003	**2004**	2003	**2004 Rm**	2003 Rm
Turnover	**(2)**	(6)	**79**	97	**1 448**	1 477
Operating profit	**(6)**	(4)	**(5)**	0	**162**	163
Average net operating assets	**(26)**	(14)	**42**	44	**391**	424
Number of employees	**25**	25	**210**	328	**2 054**	2 081

Chairman's statement



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

Peter Campbell – Chairman

Economic environment

Hudaco is a South African importer and distributor of industrial consumable products. Its customers predominantly operate within the southern African manufacturing, mining, automotive and security industries.

Sensible and stable economic policies in South Africa over the last ten years have resulted in a well balanced economy and the outlook in general is probably better now than it has been for the past 20 years. Increasing confidence in the economy has led to a better investment climate and robust consumer spending fuelled by lower interest rates. Careful management of public finances has given government the capacity to spend on upgrading and expanding the country's infrastructure. If this process is not started soon it will place further constraints on economic growth and investment. The combination of prudent government finances and increasing private and public investment spending should result in meaningful job creation. However, it is not all good news. The strong Rand, benefiting from improved investor interest in the country, is hurting the mining industry, other exporters and local manufacturers competing against cheaper imports.

The weakening of the Rand in late 2001 and early 2002 and its consistent strengthening over the following two and a half years has had a significant impact on Hudaco's financial results. The costs of Hudaco's imported product range fall as the Rand strengthens and these reductions are passed on to customers. Although lower input costs can improve our customers' competitiveness, the extent of the strengthening Rand (11% on a trade weighted basis in 2004) has far outweighed any positive growth in demand.

In such an environment, intelligent timing of price decreases has allowed Hudaco's gross margins to temporarily improve, delaying the impact on earnings, but the bigger challenge lies in how we manage the cost base. Hudaco's overheads are a significant 27% of sales. They are incurred in Rands and increase annually at approximately the prevailing rate of inflation. It would be shortsighted to expect management to reduce the cost base when underlying demand is growing as that may irretrievably damage the company's ability to service its customers. As a result, although costs are continually under review, we will wait until the Rand settles and then critically examine the cost to income ratio of each business in the group and apply corrective measures where necessary.

In general, demand for Hudaco's product range has been good in 2004. In most areas, and particularly those linked to consumer spending, it has been strong but customers negatively exposed to the impact of the strong Rand have recorded a static or lower demand for our products. Throughout this period Hudaco has maintained its policy of hedging all foreign currency liabilities. In hindsight, this has been expensive for the group, given the strengthening Rand, but it does provide certainty on the cost of goods sold and amounts owing to suppliers.

2004 results

Hudaco's financial results this year were pleasing, given the deflationary effects of the strong Rand on the group's sales line. Total sales at R1,45 billion were 2% down on last year. Operating profit was unchanged at R162 million. Net interest received of R6 million (last year R1 million paid) assisted the group to record a 2% increase in headline earnings per share to 371 cents. Headline earnings per share from continuing operations (i.e. excluding the impact of Hudaco Friction which was closed during the year) increased 3% to 383 cents. The final dividend has been increased to 93 cents per share bringing total dividends this year to 128 cents per share, an increase of 5%.

During the year a decision was reluctantly taken to close Hudaco Friction, the group's only significant manufacturer, as intense pressure from cheaper imported products pushed this brake pad and lining manufacturer into a loss.

Net cash on hand (cash balances less interest bearing debt) at year-end amounted to R200 million, up R96 million on 2003. Cash flow per share of 509 cents was 42% up on the previous year. The return on net operating assets (RONA) in 2004 was 41.4%, ahead of the 2003 return and well above our pre-tax cost of capital which is approximately 24%.

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

Strategy

Hudaco's business is low risk and has a high internal rate of return and cash flows. These cash flows are used to fund additional working capital as our businesses grow, pay a market related dividend, and are invested in new businesses when opportunities are found. The group is committed to use its strong balance sheet to expand by acquisition and over the next few years up to R500 million is planned to be spent on acquiring new businesses.

Opportunities to make meaningful investments in entirely new businesses, within what we regard as our core competency, value added distribution, are limited and patience is required to be successful. Unfortunately there is nothing to show for a great deal of corporate activity this year, but perhaps the foundation has been laid for future success. Hudaco's businesses are encouraged to grow sales and profits through market share gain or by adding to their product range through acquisitions. Again, opportunities for meaningful acquisitions of complementary and respected brands arise infrequently and it often takes years for a successful relationship to develop and an acquisition to be concluded.

Should the right business or businesses be found, the group would be prepared to increase its gearing to a debt-to-equity ratio of 50%. This would allow an investment of about R450 million based on our November 2004 balance sheet and would have the added positive effect of reducing Hudaco's weighted cost of capital and improving shareholder returns.

In 2004 Hudaco made satisfactory progress on all aspects of the Black Economic Empowerment Scorecard published by the Department of Trade and Industries. In 2005 we will continue to make progress and will align our internally developed scoring methodology with the Department's once their draft guidelines, issued in late 2004, become final.

Appreciation

2004 was a tough but successful year. Management and staff responded well to the challenge of managing the business in a deflationary sales environment due to an ever-strengthening Rand. I thank Stephen Connelly, his senior management team, and all employees for their efforts in 2004, as well as our suppliers and our customers for their ongoing loyalty and support.

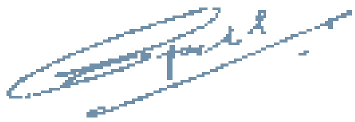
I also thank Hudaco's non-executive directors for the contribution they make to Hudaco's board and sub-committee debates, particularly on the future policies and strategies of the group.

Prospects

Manufacturers and other Hudaco customers serving South African markets are once again expected to do well in 2005 as low inflation and interest rates continue to stimulate consumer spending. Southern African mining and manufacturing exporting industries are however not expected to do as well. Hopefully, the robust growth in consumer spending of the last two years will be supplemented and ultimately sustained by the promised government spending on maintaining and growing the country's infrastructure.

If year-end exchange rates are sustained, prices of Hudaco's product range will continue to reduce as inventories are replaced, adding further pressure to the sales line. With exchange rates playing such an important role in Hudaco's fortunes we are reluctant to form a view on the likely earnings per share in 2005. Nevertheless, Hudaco's businesses are soundly placed and will benefit from the current buoyant trading conditions and another year of good cash flows and high internal rates of return is expected in 2005.

In the longer term we believe Hudaco is well placed to deliver attractive earnings growth which should be handsomely supplemented by the acquisition programme.



PL Campbell
Chairman

27 January 2005

Chief executive's review of operations

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

Stephen Connelly – Chief executive

Business model and management philosophy

Hudaco sources from 1 500 suppliers from all over the world, supplies 20 000 customers through over 100 physical locations mainly in southern Africa and carries 250 000 line items in stock. Because our main business is the supply of replacement parts to industry, demand is inelastic and sales predictability is low while supplier lead-times can average six months. A key competitive advantage is our comprehensive stockholding from which we strive to offer instant availability.

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

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

Hudaco has also developed an ability to determine the appropriate financial model for each of its businesses based on their own market characteristics. This is explained further in the financial review on page 16.

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

2004 results

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

Sales of R1,45 billion for the year are down 2% on 2003. In most businesses, real sales volumes were higher than last year but lower selling prices more than offset the better demand and resulted in an overall Rand sales decline.

If one were to exclude the results of Hudaco Friction, which was closed in the year (dealt with in detail below), sales from continuing operations amounted to R1,37 billion, down 1% on 2003. The gross profit margin at 38.1% was 1% higher than 2003 whilst expenses as a percentage of sales increased from 25.9% to 26.9%. The operating profit rose by R4m to R167m and the margin rose slightly to 12.1%. The challenge for 2005 will be to maintain the gap between the gross margin and expenses at around the 12% level, no easy task given the pressure on our sales line from the strong Rand.

Including the results of Hudaco Friction, operating profit at R162m was down 1% on last year.

Net interest received of R6 million (last year R1 million paid) assisted the group to a slight increase in headline earnings per share to 371 cents and to record a 3% increase in earnings per share from continuing operations to 383 cents. The final dividend has been increased to 93 cents bringing total dividends this year to 128 cents per share, an increase of 5% and covered three times by earnings per share derived from continuing operations.

The balance sheet is very healthy. Inventories at R285 million are R35 million below 2003 levels, and accounts receivable are roughly the same as 2003. This is to be expected given the similar sales levels in the two years. Accounts payable are up R21 million on last year but this is due to timing and accruals of closure costs – it does not represent a structural change. Net cash on hand (cash balances less interest bearing debt) at year-end is R200 million, up R96 million on 2003. Cash flow per share of 509 cents is 42% up on the previous year mainly due to the strong Rand, reducing the cost of holding the same volume of stock. Net asset value per share is R17,36.

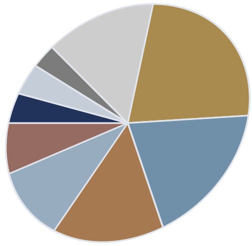
The return on net operating assets in 2004 was 41.4%, up on last years' 38.5% and again well above our pre-tax cost of capital which would be about 24% if the balance sheet were geared at a conservative 30%.

AC 133, the accounting standard dealing with the measurement of financial instruments, has been applied in both the 2003 and 2004 financial years. There was no material effect on either years' results.

Operation discontinued in 2004

Hudaco Friction, which manufactured brake pads and linings under license to TMD Friction, regrettably had to close in 2004 as the business was just not viable at current exchange rates. It had sales of R97 million in 2003 and R79 million in 2004, broke even in 2003 and incurred an operating loss of R5 million in 2004. Given its weak strategic position and reliance on a single licensor, it could not warrant the significant investment required in new equipment to reduce the cost base to competitive levels. Together with workers' representatives a number of alternatives to closure were examined without success and manufacturing ceased in December 2004. In addition to the unfortunate loss of 325 jobs, a once off charge of R14 million has been incurred (or provided for) on the closure of the business and the disposal of its assets. The disposal of the remaining assets should be complete by the end of 2005 and no further charges against profits are expected.

Sales by market sector %
(continuing operations)



	2004	2003
Manufacturing	**24**	29
Mining	**18**	17
Security SA and UK	**15**	15
Automotive	**11**	10
Exports	**7**	7
Agriculture	**4**	4
Construction	**4**	3
Public sector	**3**	3
Other	**14**	12

Bearings and transmission products

Principal businesses

Abes Technoseal
Bauer Geared Motors
Bearings International
Belting Supply Services
Bosworth
Ernest Lowe
PHC Clutch
Varispeed

This division is one of two leading South African distributors of branded bearings and power transmission products. A complete range of mainly imported bearings, seals, transmission and conveyor chains, couplings, clutches, geared motors, electric motors, variable speed drives and soft starters are offered to the manufacturing, automotive, mining and agricultural markets. Generic products are distributed by our flagship industrial distribution business, Bearings International, which has a comprehensive branch and distribution network covering southern Africa. Products are sourced from all over the world. Where customers require more specialised technical advice or access to modified stock items they use the services of our independently staffed and stocked transmission businesses.

Following the closure of Hudaco Friction, PHC Clutch and Angus Hawken were transferred to this division and the comparative figures restated.

Principal markets served %

	2004
Manufacturing	**38**
Mining	**20**
Automotive	**19**
	77

Sales to manufacturers were mixed with good demand from those supplying the local consumer market but weak from those supplying exporters or competing against imports. Demand from the mines was flat with little project business whilst demand from the automotive aftermarket was robust. The strong Rand resulted in prices falling steadily all year offsetting a small overall increase in real underlying demand for our product range. Nevertheless, the division produced satisfactory financial results in 2004. Sales decreased 5% to R791 million, but did well to hold the operating profit decline to 3% at R95 million. Over the last few years the operating profit margin has increased significantly to current levels of around 12% as the division has grown the contribution to sales of its specialised, higher margin businesses. The division's return on net operating assets (RONA) was above 40%.

The persistently strong Rand means pricing will remain under pressure and may fall further in 2005. As a result the division is budgeting for only a modest increase in sales and operating profit.

Bearings International – Hudaco's largest individual business with 48 branches country-wide suffered more than most from the Rand's strength. Higher than average exposure to a struggling mining industry and (partly as a consequence) a very price competitive environment did not allow the business to widen gross margins to cover growing expense levels. As a result operating profit declined substantially, but they are budgeting for a slightly better financial performance in 2005.

Bauer – is a specialist distributor of geared and electric motors sourced from Eberhard Bauer in Germany. Bauer's results for 2004 were good but behind 2003's excellent performance.

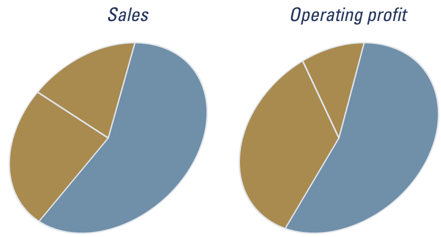
Varispeed – which was acquired in May 2003, is a specialist supplier of products sourced from Yaskawa plants in Europe and Japan that control, monitor and regulate the speed of standard AC motors. Results were excellent in 2004.

Belting Supply Services, Bosworth, Abes and Angus Hawken – are Hudaco's specialised mechanical power transmission businesses distributing conveyor belting, drive pulleys and seals respectively. All produced good results in 2004, with only Belting Supply Services recording a decline in operating profits.

Bestobell and Mather & Platt – these businesses physically merged in 2004. They distribute instrumentation, valves, pumps and control components. Another very satisfactory performance in 2004 has returns drawing very close to the group's cost of capital.

Ernest Lowe – distributes a range of sophisticated and high quality pneumatic and hydraulic power transmission products to the mining industry and local manufacturers through a countrywide branch and distributor network. Their main supplier of pneumatic equipment is Norgren in the UK. The business recorded a decline in sales and operating profit as the mines continued to curtail project spending. A similar profit performance is budgeted for 2005.

PHC Clutch – is a leading distributor of light duty automotive clutches under "the Clutch" and Valeo brand names to the local automotive aftermarket. Clutch kits are mainly imported from Valeo Pyeong Hwa in Korea. Volume sales were 18% higher whilst Rand sales increased only 5%. Higher margins resulted in a substantial increase in operating profit and the return on net operating assets was significantly better than 2003. A similarly strong financial performance is therefore expected in 2005.



Contribution to group sales:	55%
Contribution to operating profit:	59%

	2004	2003
Sales (Rm)	**791**	828
Operating profit (Rm)	**95**	98
Average NOA (Rm)	**234**	236
Number of employees	**1 391**	1 303

Comparative figures have been restated (see page 10).

Principal brands

Ball and roller bearings from Japan. Sole distributor since 1962

European pneumatic equipment. Distributor since 1959

Own range of hydraulic and pneumatic systems and cylinders since 1952

Swiss conveyor and transmission belting. Sole distributor since 1967

Needle roller bearings. Aftermarket distribution since 1995

Seals from Germany. Sole distributor since 1955

Variable speed drives from Japan. Sole distributor since 1992

Geared motors from Germany. Sole distributor since 1989

Clutch kits from Korea. Sole distributor since 1996

Powered products

Principal businesses

Deutz Dieselpower
Rutherford

Demand for power tools and outboard motors was strong in 2004 fuelled by low interest rates and healthy consumer spending. As with our Bearings and Transmission division, sales to manufacturers were mixed with good demand from those supplying the local consumer market but weak from those supplying exporters or competing against imports. Demand from the mines was flat with little project business.

Principal markets served %

	2004
General trade and leisure	28
Mining	23
Manufacturing	10
Construction	14
	75

Deutz Dieselpower – distributes Deutz diesel engines and spares primarily to the off-highway market. Its main market is mining but it also is a significant supplier of spares to agricultural, military and construction markets and to manufacturers of power generators. DDP's main supplier is DeutzAg in Germany, which owns 30% of this business.

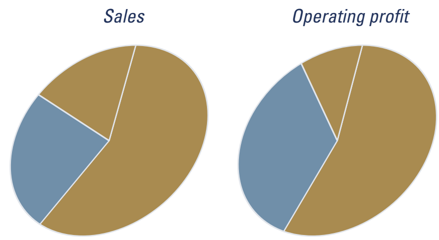
There is a large installed base of Deutz engines in southern Africa which is constantly being added to. Deutz products are at the forefront of diesel engine technology. They offer the benefits of first world output to weight ratios, low fuel consumption and low emission levels. These features are more in demand as customers in Africa become aware of them and, as a result, put less emphasis on the initial cost of the product.

Demand for engines by the mining and power generation sectors were lower than expected but increased sales to the marine sector resulted in an overall sales increase, notwithstanding the lower Rand prices being received for Euro sourced products. Operating profit declined but an improvement in net operating asset turn was achieved resulting in a slightly higher return on net operating assets. Returns are being maintained at an appropriate level given the risk/return profile of the business. Another good operating result is expected in 2005.

Rutherford – is the sole South African distributor of Makita industrial power tools, Mercury and Mariner outboard motors, Mercruiser inboards and spare parts to independent retail outlets from warehouses in Johannesburg, Cape Town and Durban. Makita of Japan is the largest manufacturer of professional and industrial power tools in the world with factories in Europe, China, USA, South America and Japan. Mercury/Mariner with manufacturing facilities in the USA and Europe, is the largest manufacturer of outboard motors.

Demand for industrial power tools and outboard motors increased in 2004. Makita took an increased share of the growing market and improved margins as the Yen, weakening more or less in line with the US Dollar, allowed Makita tools to compete more effectively with its mainly European competitors. Management also took the initiative to introduce new value added concepts and expanded the product range which had a positive impact on sales. Industrial power tool demand is expected to increase in 2005 whilst demand for outboard motors is expected to continue to grow as low interest rates keep the product affordable to boat buyers.

Volume sales increased by 21% over the last year but price reductions held the increase in Rand sales to 10%, whilst operating profit increased sharply with the return on net operating assets improving further off a high return achieved in 2003. This business is likely to face increasing pricing pressure as competitors seek to preserve market shares and will do well to maintain current profit performance levels in 2005.



Contribution to group sales: *24%*
Contribution to operating profit: *37%*

	2004	2003
Sales (Rm)	**350**	325
Operating profit (Rm)	**60**	48
Average NOA (Rm)	**63**	69
Number of employees	**276**	283

Principal brands

Air and liquid-cooled diesel engines. 2kW – 400kW
Sole distributor since 1969

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

Outboard and inboard motors from USA.
Sole distributor since 1986

Outboard motors from USA.
Sole distributor since 1978

Security equipment

Principal businesses

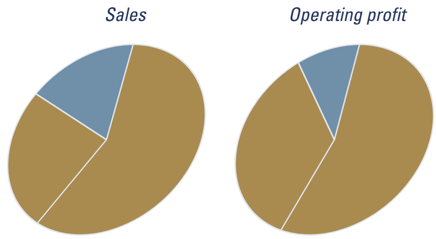
Elvey Security Technologies
(South Africa and United Kingdom)

Elvey Security Technologies ("Elvey") – Elvey's principal business is the distribution of alarm equipment, including control panels, motion sensors, access control, CCTV, optical fibre and related data transmission equipment. It is the largest distributor of this equipment in southern Africa and expanded its business to the UK in 2002. Value is added through system design, application and operation advice and installation training. Customers are electronic security installers and system integrators serving the domestic, commercial and industrial security market. Elvey's largest suppliers, DSC of Canada, Caddx of the USA and Optex of Japan, who are represented on an exclusive basis, are three of the major world manufacturers of alarm equipment.

CCTV security technology is expected to develop rapidly, and ultimately integrate with access control and alarm equipment as costs become more affordable. Sales of these products are already providing new growth impetus to this business as the enhanced benefits of this technology for securing and managing premises become apparent.

The South African business recorded a 9% increase in real sales in 2004 but price reductions to maintain competitiveness and market share meant Rand sales increased only 4%. Expenses, subject to local inflation, rose by about 5% squeezing the operating profit margin. Operating profit fell 17% to R16 million but a much improved performance is budgeted for 2005 as real sales are expected to continue their healthy growth supported by the boom in building activity.

In its second full year of operation the UK security business made a satisfactory profit. Rand sales were below 2003 due to the stronger exchange rate used to translate results and the loss of a significant customer who ceased financing domestic security installations. Operating profit was also adversely affected by the costs of opening small branches in Sheffield and London during the latter part of 2004. These are only expected to break even after March 2005.



Contribution to group sales: *16%*
Contribution to operating profit: *11%*

	2004	2003
Sales (Rm)	**230**	233
Operating profit (Rm)	**18**	21
Average NOA (Rm)	**78**	89
Number of employees	**152**	142

Principal brands

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

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

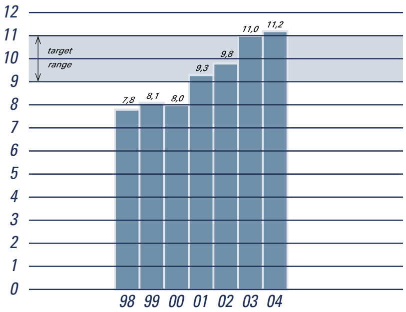
Japanese intrusion detection devices.
Sole distributor since 1987

Manufacturer of optical fibre transmission equipment.
Distributor since 2002.

Korean manufacturer of video security systems.
Distributor since 2004.

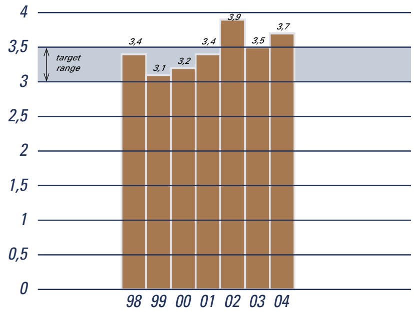
Financial review

Operating profit margin – %



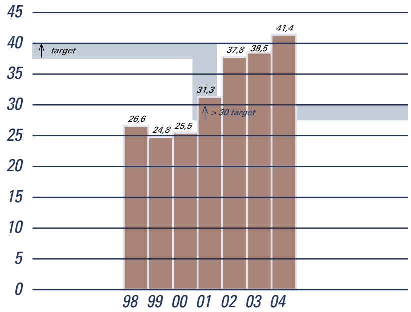
Operating profit / Turnover

NOA turn – times



Turnover / Average NOA

Return on NOA – %



Operating profit / Average NOA

Hudaco's principal financial objective is to provide shareholders with a competitive return on their investment over time, by growing earnings per share and paying market related dividends to shareholders twice yearly.

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 each business to grow whilst producing a return (over time) exceeding its cost of capital. We will also use the cash flow generated by the mature businesses in the group to acquire new businesses when opportunities arise but will maintain prudent financial gearing.

Operating targets and the cost of capital

The main operating performance measure used by the group is operating profit (PBIT), expressed as a percentage of average Net Operating Assets (NOA) employed during the year. The elements of NOA are set out on page 3 of this annual report. Each business is measured against its own benchmark, its objective being to produce the ideal balance between operating profit margin (%) and net operating asset turn (times) with the product of the two being its Return on Net Operating Assets (RONA).

Hudaco is able to determine the ideal components of RONA for each business. Industrial distribution businesses generate an operating profit margin of between 8% and 15%. The lower the resulting operating profit margin, the higher the net operating asset turn has to be to achieve a RONA exceeding the cost of capital. An NOA turn of between 3 and 4 times is usual for our kind of business which requires achieving the right balance between the elements of working capital – inventory, accounts receivable and supplier credit.

A RONA of 24% roughly equates to the pre-tax cost of capital at current interest and income tax levels – the hurdle rate. The group's operating profit margin in 2004 was 11.2% (2003: 11.0%) whilst NOA turn was 3,7 times (2003: 3,5 times). The RONA was therefore 41.4% (2003: 38.5%), well above the hurdle rate for the fourth year in succession. Together with a revival of interest in small cap. companies, this performance has been rewarded by a substantial increase in the share price over the last two years. Providing the economy does not decline from current activity levels we believe the group can continue to achieve a return well above the hurdle rate in the future.

Earnings

This year headline earnings per share at 371 cents were up 2% on 2003. This follows a 16% increase in 2003. Over the last five years headline earnings per share have grown by 160% from 142 cents to 371 cents, a compound growth rate of 21%. Over the same period earnings in the All Share Industrial Index have grown by a compound growth rate of 8%. Notwithstanding this out-performance of the earnings index, Hudaco's price earnings ratio of 8.6 at the end of the financial year is still only 64% of the All Share Industrial Index price-earnings ratio of 13.4. Such a large discount presumably means there is room for further improvement in the Hudaco share price.

Dividends

Hudaco's policy is to pay a dividend to shareholders covered approximately three times by headline earnings. This year's dividends total 128 cents – up 5% on last year and made up as follows:

	2004	2003	% change
Interim	**35c**	32c	+10
Final	**93c**	90c	+3
Total	**128c**	122c	+5
Cover	**3,0***	3,0	

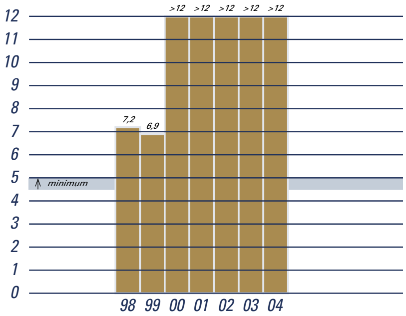
**based on continuing operations*

Cash flow

A summarised operating cash flow statement is set out below:

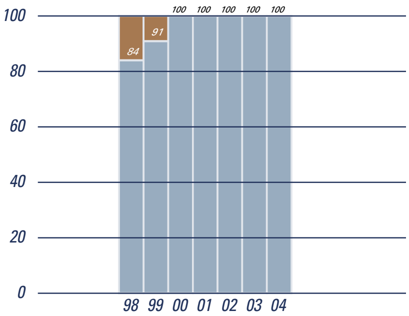
	2004 Rm	2003 Rm
Cash generated from trading	**176**	177
Decrease in working capital	**38**	(12)
Operating activities	**214**	165
Interest received	**6**	(1)
Taxation paid	**(63)**	(56)
Cash flow from operations	**157**	108

Interest cover – times



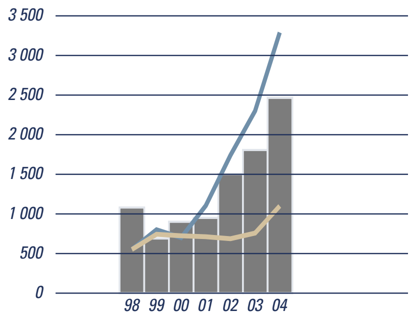
Operating profit
Net finance costs

Funding mix – %



Net borrowings
Shareholders' funds

Hudaco share price – cents



Average share price *Closing price*
Closing All Share Industrial Index

Cash flow from operations of R157 million (509 cents per share) was strong and results from similar sales to those of 2003, but significantly lower working capital levels. After investing R14 million in plant and equipment, R11 million in new businesses and the payment of R39 million in dividends to shareholders, the year closed with net cash on hand of R200 million (2003: R104 million).

Borrowings

Although Hudaco currently has cash on hand we are committed to investing this and more in new businesses and would ideally like a geared balance sheet. However, we would aim to operate with net borrowings no higher than 50% of total shareholders' funds.

Perhaps more important than managing gearing is an objective to ensure that interest is covered at least five times by operating profit. In 2004 the group had substantial interest income.

Taxation

The group's effective rate of taxation before capital items this year is 33.1% (2003: 31.7%) and is expected to be between 32% and 33% for the foreseeable future.

Financial risk management

Note 17 to the Financial Statements sets out full details of how the group manages financial risk.

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 are held in separate, independently administered funds.

Hudaco has undertaken to provide limited assistance to fund post retirement medical costs for some current and future pensioners. This liability is fully provided for in respect of current pensioners, whilst it is not material in respect of future pensioners.

The group's primary fund has completed its surplus apportionment exercise, using a valuation date of 30 June 2002. The balance of the funds will use June 2004 as a valuation date for their surplus apportionment. The principal officer of the group's three main funds has advised that he is not aware of any material improper use of surpluses which may have to be refunded by the employer, but this opinion is still subject to the completion of a thorough and independent review during the surplus apportionment exercises.

In 1991 one of the group funds converted from a defined benefit fund to a defined contribution fund and adopted a new set of rules. The then administrators and underwriters advised that the new rules authorised the employer to continue with the contribution holiday which approximated R2,5 million per annum between 1992 and 2001. The FSB recently advised that, in its opinion, these rules did not allow for the continuation. The Fund Trustees, the employer and the administrators at that time have agreed to take the FSB decision on review. The outcome of this review is uncertain and this matter has been treated as a contingent liability. The employer has numerous remedies available to recover any refund that may have to be made to the fund should the review be unsuccessful.

Appreciation

On behalf of the senior management team, I thank Hudaco's chairman, Peter Campbell, and our non-executive directors for the guidance they give to operational management on strategic and governance issues. I personally also extend thanks to the group's senior management, in particular the members of the executive committee, for their advice and accomplishments this year.

SJ Connelly
Chief executive

27 January 2005

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

The board

Hudaco is committed to a high standard of corporate governance and recognises the role that the independent non-executive directors play in maintaining them. Non-executive directors stay abreast of the company's business through comprehensive board presentations, site visits, business functions and interactions with senior management.

During 2003 a self-evaluation of the board, using the questionnaire contained in the King II Report, was carried out. A performance review of board members was carried out in 2004 and issues arising successfully addressed. A formal board charter will be put in place in 2005.

Four independent non-executive directors have been appointed to the board for fixed terms not exceeding three years. The chairman is an independent non-executive director. There are four executive directors all of whom have service contracts of indefinite term, but with three months notice of termination. The board of directors, which is responsible for setting group strategy, approving budgets and monitoring group performance, meets formally four times per year. During the 2004 financial year all directors attended all meetings except G Gardiner who missed one meeting.

There is a formal schedule of material matters especially reserved for the board's approval.

The selection and appointment of directors and the company secretary is a matter for the board as a whole.

All directors have access to the services and advice of the company secretary. Directors are entitled to seek independent professional advice at the group's expense should it be required.

Details of the members of the board can be found on pages 22 and 23.

Board committees

Executive committee

The executive committee comprises the four executive directors and six senior executives (see pages 22 and 23). Meetings are chaired by the chief executive. The executive committee's principal terms of reference are to advise the chief executive on the formulation of operating policy, the implementation of group strategy and to manage key group risks. The committee functions under written terms of reference and incorporates a Skills and Equity sub-committee and a Safety, Health and Environment sub-committee.

The executive committee meets formally four times per year. During the 2004 financial year all members attended all meetings except G Gardiner who missed one meeting.

Audit and risk management committee

The members of this committee are: JB Gibbon (Chairman), PL Campbell (both independent non-executive directors), SJ Connelly and PM Poole. The chairman of the committee has a casting vote. The external auditors and the head of the group risk and internal audit department attend committee meetings. The committee functions under written terms of reference and meets three times per year. All members attended all meetings during the year. The committee reviews the interim and annual financial statements before submission to the board and seeks to maintain an objective and professional relationship with the external auditors.

The committee deals with matters concerning risk management and internal controls as well as audit scope, accounting, taxation and financial reporting. The effectiveness of management systems, information and internal controls are reviewed in conjunction with the findings and recommendations of the external auditors and the group risk and internal audit department. Consultation occurs between external auditors and the internal auditors to effect an efficient audit process. The committee monitors proposed changes in accounting policy, considers the accounting and taxation implications of major transactions and sets the principles for using the external auditors for non-audit services.

Remuneration committee

The committee consists of PL Campbell (Chairman), PG Joubert, YKN Molefi (all independent non-executive directors) and SJ Connelly. Ms Molefi was appointed to the committee in 2004. The committee functions under written terms of reference. The committee met twice during the year and all members attended the meetings. It reviews and approves the annual salaries, bonus schemes, share incentive awards, senior appointments, succession planning and service agreements for senior management including executive directors. The chief executive is not present when his remuneration is discussed. It also reviews the performance of senior management and recommends the fees for the non-executive directors to the Hudaco board. The group's philosophy is to pay market related remuneration and the committee receives advice from independent consultants to ensure that this is the case. Senior management remuneration consists of fixed remuneration, performance related remuneration based on the achievement of pre-determined levels of profitability and/or returns on operating assets and participation in the share incentive scheme. When appropriate, the achievement of non-financial targets is also required to earn performance related remuneration. Individual directors' remuneration is disclosed under note 21.4 on page 43.

Financial control and risk management

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

- An approval framework with defined authority limits;
- A detailed budgeting system;
- The preparation of forecasts, which are regularly reviewed and updated;
- Monthly reporting of income statement and balance sheet together with regular written reports which highlight areas of particular risk or opportunity;
- A centralised treasury, which incorporates foreign exchange and cash management functions;
- Regular reporting on treasury, legal, pension, medical aid and insurance matters;
- Risk registers at operating division and group level, which are monitored on a regular basis.

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

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

The brief of the department is to conduct a formal review of the effectiveness of all the group's systems of internal control over a three year cycle and of major systems in all businesses annually. The department has reported that the internal control structures in the businesses are sound and comply with laid down procedures.

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

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

*"We believe that a significant part of Hudaco's strength is its **people** who thrive in a dynamic and challenging business environment."*

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

The external auditors are responsible for reporting on whether the financial statements are fairly presented in accordance with South African Statements of Generally Accepted Accounting Practice. An external audit provides reasonable assurance that the financial statements are free of material misstatement.

Social responsibility and sustainability

The Hudaco board acknowledges its responsibility to develop and manage sustainable businesses for the benefit of all stakeholders, which includes the community. Charitable institutions are supported by both the Hudaco Foundation and individual operating divisions.

Black economic empowerment

There is a keen awareness in the group of the economic benefits of having adequate Black Economic Empowerment (BEE) credentials. During 2004 the group devised its own method of scoring the BEE Scorecard published by the Department of Trade and Industry in 2003. Hudaco's starting score has already been improved through various BEE initiatives. Our medium term objective is to achieve above 65% which would classify the group as a "good contributor" to BEE. In 2005 we will continue to make progress and align our internally developed scoring methodology with the Department's once its draft guidelines, issued in late 2004, become final.

Skills development

There is a keen awareness of the need to promote previously disadvantaged individuals to better positions in the group. In order to achieve this, in house and external training is given in a wide range of practical and theoretical subjects in all operating divisions.

Hudaco has assisted the Technikon Witwatersrand for the last seven years to provide a high standard of lecturing in its mechanical engineering department. In terms of a subvention agreement, the salary of a senior lecturer is supplemented by Hudaco. In addition, students are given practical training in the group and some are offered full time employment.

For many years Hudaco has supported the Thuthuka Bursary Fund (formerly the CA's Eden Trust) which develops and trains black chartered accountants. This year, in order to assist the Fund with its future financial planning, Hudaco gave an undertaking to continue its support for a further five year period.

In 2004, Bearings International granted learnerships to 17 previously disadvantaged, unemployed people. They are undergoing twelve months of practical training and the more successful ones will be offered full-time employment in the group.

Corporate social investment

Apart from donations made to a range of charitable institutions, Hudaco is involved with a number of specific projects aimed at improving the lives of previously disadvantaged communities.

For example, Rutherford, Hudaco's outboard motor distributor, has for four years sponsored the Development Racing Programme of the SA Powerboat Association which is aimed at previously disadvantaged individuals. The programme has 44 boats stationed over the 11 regions of South Africa. Participants are selected from schools in each region and given expert tuition and training in the sport of powerboat racing. Promising students are given the opportunity to compete for provincial colours and take part in National Championships.

Support for SMME's

A number of initiatives are in operation in the group, all aimed at giving previously disadvantaged individuals an opportunity to improve their lives. The group's BEE procurement policies are increasingly used to support these initiatives. For example, a small business employing nine people and manufacturing spiral wound gaskets is being supported by Bestobell with rent-free premises

and administration services, including stock control and purchasing.

Ethics

Hudaco has a Code of Business Conduct approved by the board and distributed to all staff. It is a living document and suggestions from employees are welcomed. The intention is to evolve a standard of conduct with which all staff can identify and live by.

HIV/Aids

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

Safety, health and the environment

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

Employment equity

The group complies with legislative and regulatory requirements to favour previously disadvantaged individuals (as defined) in its employment practices. Appropriate structures are in place to foster good employer-employee relationships through effective sharing of relevant information, consultation and resolution of conflict. Head Office plays a leading role in the development of management and monitors compliance with legislation. Employment Equity plans and strategies are in place and updated in compliance with the Act. With the medium term challenge to achieve a 65% score for the BEE scorecard in mind, we acknowledge that greater attention needs to be given to the promotion of black staff to management levels.

The group's staff complement in the management and skilled occupational levels (excluding Hudaco Friction) are as follows:

Occupational Level	Black	Coloured	Asian	White	Total	Male	Female
2004							
Management	3	1	3	109	116	103	13
Skilled	96	54	64	489	703	527	176
2003							
Management	2	1	3	106	112	99	13
Skilled	110	58	72	492	732	552	180

Communicating with shareholders

The chief executive and the financial director regularly communicate with shareholders, the investment community and media analysts. Visual aids used in presentations are made available on the group web site. Shareholders are encouraged to attend Annual General Meetings. Financial results are published on SENS, on the group web site and in the press and shareholders receive a hard copy timeously.

Dealing in securities

Directors, officers and selected employees are made aware of restricted or closed periods for dealing in Hudaco shares and the provisions of insider trading legislation.

Conclusion

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

Executive committee

Stephen Connelly* (53)
Group chief executive
ACMA
22 years' service
Stephen joined Maccabee Industrial Finance Limited as group financial manager in 1979. He joined Valard Limited in 1982 as financial director and was appointed managing director in 1987. He became chief executive of Hudaco in 1992 after Hudaco's acquisition of the Valard group.

Richard Arnestad (61)
Group secretary
CA(SA)
8 years' service
Richard qualified as a chartered accountant with Deloitte in 1972. He joined Everite Group Limited in 1987 and following their takeover by Group Five Limited was appointed group secretary. He was appointed group secretary of Hudaco in 1996.

Bob Cameron-Smith (56)
CEO Rutherford
31 years' service
Bob joined Vickers Instruments in March 1973. He was appointed managing director in 1978. After Valard's acquisition of Vickers he was appointed a divisional director. Following the takeover of the Valard group in 1992 he assumed responsibility for Rutherford and was appointed chief executive in 1994.

Leon Coetzer (50)
CEO Deutz Dieselpower
15 years' service
Leon joined Deutz Dieselpower in 1989 in the position of project manager. In 1996 he was appointed a director assuming responsibility for technical and engine sales activities. He was appointed chief executive in 1999.

Gilbert da Silva (57)
CEO Conveyor and Transmission Division
ACIS
34 years' service
Gilbert joined Hudaco in 1987 with the purchase by Hudaco of the listed Frencorp Limited of which he was the financial director. He served as financial manager of the Transmission division until his appointment as chief executive of the Conveyor and Transmission division in 2003.

Non-executive directors

All non-executive directors are independent

Peter Campbell (67)
Chairman
CA(SA) AMP Harvard
Peter was formerly deputy chairman of Nampak Limited, a position from which he retired in 1997. He remains a non-executive director of Nampak and chairman of Pangbourne Properties Limited and is a non-executive director of Crookes Brothers Limited and Delta Electrical Industries Limited. Joined the board in 1997.

John Gibbon (64)
Director of companies
CA(SA)
John qualified as a chartered accountant with Pricewaterhouse-Coopers in 1963 and was admitted as a partner in 1973. He served as a partner in the Port Elizabeth and Johannesburg offices and retired as a senior partner in 2001. Joined the board in 2001.

Peter Joubert (71)
Director of companies
DA DPWM AMP
Peter was formerly chairman of African Oxygen Limited, a position from which he retired in 1994. He is a director of a number of listed and unlisted companies. Joined the board in 1996.

Nene Molefi (39)
Businesswoman
BSocSc
Nene worked for ESKOM for 10 years during which time she was seconded to the Department of Labour as head of human resources management. She served as an executive director of the City of Cape Town over-seeing the transformation initiatives of the city and is currently managing director and sole owner of Mandate Molefi, human resource consultants. Joined the board in 2002.

Graham Gardiner* *(58)*
CEO Bearings and Transmission Division
34 years' service
Graham joined Hudaco in 1987 with the purchase by Hudaco of the listed Frencorp Limited of which he was the chief executive. He was appointed to the Hudaco board in 1988. He is currently divisional chief executive of the Bearings and Transmission division.

Mike Jolly* *(61)*
Chairman BEP Bestobell and Ernest Lowe
45 years' service
Mike joined Deutz Dieselpower in December 1959. He was appointed general manager in 1975 and to the Hudaco board in 1988. He assumed responsibility for Bestobell and Ernest Lowe in 1998.

Tony Patten *(50)*
CEO Bearings International
22 years' service
Tony began his career at Stewarts & Lloyds in 1974. He joined Hudaco as a branch manager at Circle Pumps, Pinetown in 1982. Since then he has served as general manager of The Roller Chain Company and Consolidated Bearing Company before being appointed chief executive of Bearings International in July 2001.

Peter Poole* *(57)*
Group financial director
BCom CA(SA)
17 years' service
Peter qualified as a chartered accountant with Deloitte in 1970. He left them in 1980, after four years as a partner in Johannesburg and Harare, to join a family manufacturing business in Pretoria. He was appointed group financial director of Hudaco in 1987.

Douglas Salmon *(57)*
CEO Ernest Lowe
MSc
17 years' service
Prior to joining Hudaco Douglas was employed as sales director of Buckley Engineering. He has had a varied career at Hudaco having been managing director of Valard Bearings as well as portfolio manager responsible for various operations. He was appointed chief executive of Ernest Lowe in 1994.

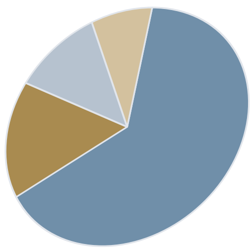
**Executive directors*

"The Hudaco board acknowledges its responsibility to develop and manage sustainable businesses for the benefit of all stakeholders."

Value added statement

for the year ended 30 November 2004

	2004 R000	2003 R000
Turnover	**1 448 378**	1 476 900
Less: Cost of materials, facilities and services from outside the group	**963 769**	1 008 056
Value added	**484 609**	468 844
Net interest income	**6 159**	
Exceptional items	**(18 253)**	
Total wealth created	**472 515**	468 844
Distributed to:		
Employees – salaries, wages and other benefits	**307 314**	290 842
Providers of finance – interest on borrowings		717
Government – company taxation	**50 389**	51 686
Shareholders – dividends	**39 278**	33 605
Maintain and expand the group		
– profits retained	**60 297**	77 189
– depreciation	**15 236**	14 805
Total wealth distributed	**472 515**	468 844



Distribution of wealth created %

	2004	2003
Employees	**65**	62
Reinvested	**16**	20
Taxation	**11**	11
Shareholders	**8**	7

Statement of gross contributions to government in South Africa

for the year ended 30 November 2004

	2004 R000	2003 R000
Company income tax and STC	**49 775**	50 765
Customs and excise duty	**11 434**	12 514
RSC and SD levies and assessment rates	**5 225**	5 243
Value added tax not deemed an input credit	**477**	508
Government grants and subsidies received	**(250)**	(903)
Direct contribution to government	**66 661**	68 127
Add the following collected on behalf of government:		
Value added tax (net)	**55 460**	55 256
Employees' tax	**48 095**	50 339
Gross contributions by the group to government	**170 216**	173 722

Hudaco

"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."

Index

Financial statements

Shareholder information

Statement of directors' responsibility

The directors of Hudaco are responsible for the preparation of the financial statements and other information presented in the annual report in a manner that fairly presents the state of affairs and results of the operations of the company and the group. The annual financial statements contained on pages 27 to 45 have been prepared in accordance with South African Statements of Generally Accepted Accounting Practice. The external auditors are responsible for carrying out an independent examination of the financial statements in accordance with South African Auditing Standards and reporting their findings thereon. The auditors' report is set out below.

The directors have no reason to believe that the group will not continue as a going concern in the year ahead and the external auditors concur with this view.

The directors assume responsibility for the annual financial statements and the group annual financial statements, set out on pages 27 to 45, which were approved by the board on 27 January 2005 and are signed on the directors' behalf.

PL Campbell
Chairman

SJ Connelly
Chief executive

27 January 2005

Report of the independent auditors

To the members of Hudaco Industries Limited

We have audited the annual financial statements and group annual financial statements of Hudaco Industries Limited set out on pages 27 to 45 for the year ended 30 November 2004. These financial statements are the responsibility of the company's directors. Our responsibility is to express an opinion on these financial statements based on our audit.

Scope

We conducted our audit in accordance with statements of South African Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement. An audit includes:

- examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements;
- assessing the accounting principles used and significant estimates made by management; and
- evaluating the overall financial statement presentation.

We believe that our audit provides a reasonable basis for our opinion.

Audit opinion

In our opinion, the financial statements fairly present, in all material respects, the financial position of the company and the group at 30 November 2004 and the results of their operations and cash flows for the year then ended, in accordance with South African Statements of Generally Accepted Accounting Practice, and in the manner required by the Companies Act in South Africa.

Grant Thornton
Registered Accountants and Auditors
Chartered Accountants (SA)

Johannesburg
27 January 2005

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

Financial results

The results of the company and the group are set out in the financial statements and full commentary thereon is provided in the chief executive's report.

A primary segment analysis by operating division is set out on page 44.

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

Dividends

The following dividends per share have been declared and proposed for the 2004 financial year:

Final 2003

Dividend No 33	90c
Record date	19 March 2004
Paid	23 March 2004

Interim 2004

Dividend No 34	35c
Record date	13 August 2004
Paid	16 August 2004

Final 2004 – proposed

Dividend No 35	93c
Record date	18 March 2005
Payable	22 March 2005

Directors

There are four independent directors: PL Campbell, JB Gibbon, PG Joubert and YKN Molefi.

There are four executive directors: SJ Connelly, MS Jolly, GE Gardiner and PM Poole (see pages 22 and 23).

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

Acquisitions and disposals

There were no material acquisitions or disposals during the year. Hudaco Friction ceased operations during the year (see chief executive's report – page 9).

Authorised and issued share capital

The authorised share capital remained unchanged during the year. The issued share capital was increased by R43 483 to R3 194 580 through the issue of 434 829 shares of 10 cents each to employees in terms of the share incentive scheme for a total consideration of R3 181 134 (average of R7,32 per share). Of these, 142 333 shares were delivered to directors for a total consideration of R942 680.

Special resolutions adopted by subsidiary companies

No special resolution of significance to the appreciation of the state of affairs of the group was passed by any subsidiary during the past year.

Interest of directors

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

2004	**Beneficial Direct**	**Beneficial Indirect**	**Indirect and non-beneficial**
PL Campbell*		**5 000**	
SJ Connelly	**162 300**		**1 680**
GE Gardiner		**16 500**	
MS Jolly	**66 667**	**12 519**	
PM Poole	**80 942**		
	309 909	**34 019**	**1 680**

**Non-executive*

The executive directors also hold rights in terms of the share incentive scheme to take delivery of 731 667 shares at an average price of R20,68 per share (see page 28).

The shareholdings above have not changed between 30 November 2004 and the date of the notice of the annual general meeting which forms part of this annual report.

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

2003	**Beneficial Direct**	**Beneficial Indirect**	**Indirect and non-beneficial**
PL Campbell*		5 000	
SJ Connelly	257 300		1 680
GE Gardiner		82 250	
MS Jolly	45 667	85 793	
PM Poole	42 942		
	345 909	173 043	1 680

**Non-executive*

At 30 November 2003 executive directors also held rights in terms of the share incentive scheme to take delivery of 374 000 shares at an average price of R10,09 (see page 28).

Directors' interest in share incentive scheme

The directors have entered into the following deferred delivery agreements:

2004	Outstanding shares at November 2003	Strike price	Granted during the year	Forfeited on resig-nation	Delivered during the year	Delivery date	Market price on date of delivery	Outstanding shares at November 2004	Date granted	Date expires
SJ Connelly	115 000		200 000		(30 000)			**285 000**		
	45 000	10,75			(30 000)	Feb '04	25.00	**15 000**	9 Mar '00	8 Mar '10
	70 000	12,55						**70 000**	22 Apr '02	21 Apr '12
		24,60	200 000					**200 000**	17 Mar '04	16 Mar '14
GE Gardiner	80 000		150 000		(13 333)			**216 667**		
	20 000	10,75			(13 333)	Feb '04	24.80	**6 667**	9 Mar '00	8 Mar '10
	60 000	12,55						**60 000**	22 Apr '02	21 Apr '12
		24,60	150 000					**150 000**	17 Mar '04	16 Mar'14
MS Jolly	21 000				(21 000)					
	21 000	4,15			(21 000)	Feb '04	24.85			
PM Poole	158 000		150 000		(78 000)			**230 000**		
	68 000	4,15			(68 000)	Feb '04	24.00			
	30 000	10,75			(10 000)	Feb '04	24.00	**20 000**	9 Mar '00	8 Mar '10
	60 000	12,55						**60 000**	22 Apr '02	21 Apr '12
		24,60	150 000					**150 000**	17 Mar '04	16 Mar '14
Total	374 000		500 000		(142 333)			**731 667**		

Delivery must be taken within ten years of the date granted and one third may be taken in each year from the third year.

2003	2002							2003		
SJ Connelly	138 000				(23 000)			115 000		
	23 000	4,15			(23 000)	Feb '03	18,85		26 Oct '98	
	45 000	10,75						45 000	9 Mar '00	8 Mar '10
	70 000	12,55						70 000	22 Apr '02	21 Apr '12
GE Gardiner	261 000				(181 000)			80 000		
	181 000	4,15			(150 750)	Jan '03	18,85		26 Oct '98	
					(30 250)	Apr '03	16,50			
	20 000	10,75						20 000	9 Mar '00	8 Mar '10
	60 000	12,55						60 000	22 Apr '02	21 Apr '12
MS Jolly	21 000							21 000		
	21 000	4,15						21 000	26 Oct '98	25 Oct '08
PM Poole	208 000				(50 000)			158 000		
	118 000	4,15			(50 000)	Aug '03	18,66	68 000	26 Oct '98	25 Oct '08
	30 000	10,75						30 000	9 Mar '00	8 Mar '10
	60 000	12,55						60 000	22 Apr '02	21 Apr '12
Current directors	628 000				(254 000)			374 000		
Former director										
A Keschner	122 680			(60 000)				62 680		

No additional shares were granted during the year.
A Keschner resigned as a director on 3 July 2003.

Accounting policies

The financial statements are prepared on the historical cost basis and incorporate the following principal accounting policies, which conform with South African Statements of Generally Accepted Accounting Practice. These policies are consistent with those applied in the previous year.

Basis of consolidation

The group financial statements incorporate all the assets, liabilities and results of the company and all its subsidiaries. In all cases results are reported from the effective date of acquisition or to the effective date of disposal. Significant inter-company transactions and balances have been eliminated.

Goodwill

Goodwill, being the excess of the purchase consideration (which includes any related restraint of trade payments) over the attributable fair value of net assets at the effective date of acquisition of subsidiaries, arising:

- before 1 January 2001, was charged directly to retained income,
- after 1 January 2001 and before 1 March 2004, was capitalised and amortised on a straight-line basis over the lesser of its effective economic life and twenty years, and
- after 1 March 2004 is capitalised.

All goodwill is tested for impairment at least once a year and if necessary any impairment is recognised in the income statement.

Property, plant and equipment and depreciation

Land is stated at cost to the group.

Buildings, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets, except for leased motor vehicles which are depreciated on a straight-line basis to their contracted residual value.

Capitalisation of leased assets

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

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

Inventories

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

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

Deferred taxation

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

Foreign currencies

Foreign currency transactions are translated at the approximate rates ruling at the dates of the transactions.

Assets and liabilities in foreign currencies are translated at the spot rates of exchange ruling at the financial year-end.

In the case of foreign operations, monetary items are translated at the closing rate, non-monetary items are translated at the rates ruling on the transaction date and owners' interest is translated at historical rates. In the case of foreign entities the assets and liabilities are translated at the closing rate except for goodwill arising on the initial acquisition which is translated at the historical rate. Income statement items are translated at an appropriate weighted average exchange rate for the year.

Exchange differences arising, if any, on the consolidation of foreign entities are classified as equity and transferred to the group's translation reserve. Such translation differences are recognised as income or as expenses in the period in which the operation is disposed of.

Exchange differences, if any, on the consolidation of integrated foreign operations are included in the operating profit for the year.

Financial instruments

Financial instruments are initially measured at cost when the related contractual rights or obligations arise. Subsequent to initial recognition these instruments are measured as follows:

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

Gains and losses on subsequent measurements are treated as follows:

Hedge accounting transactions are classified into two categories:
(a) fair value hedges, which hedge the exposure to changes in the fair value of a recognised asset or liability i.e. forward exchange contracts in respect of foreign trade liabilities, and (b) cash flow hedges, which hedge exposure to variability in future cash flows attributable to forecast transactions, i.e. forward exchange contracts in respect of orders placed on foreign suppliers but not yet shipped.

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

Turnover and revenue

Turnover represents the invoiced value, excluding VAT, of goods sold outside the group. Turnover and the revenue or income from it is recognised when the risk passes to the customer.

Retirement benefits

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

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

Group income statement

for the year ended 30 November 2004

	Notes	2004 R000	2003 R000
Turnover		**1 448 378**	1 476 900
Continuing operations		**1 369 063**	1 379 572
Operation discontinued in 2004		**79 315**	97 328
Cost of sales		**896 470**	930 951
Gross profit		**551 908**	545 949
Operating expenses		**389 849**	382 752
Operating profit	1	**162 059**	163 197
Continuing operations		**166 978**	162 726
Operation discontinued in 2004		**(4 919)**	471
Cost of closure of discontinued operation		**18 641**	
Capital items	2	**5 458**	5 079
Profit before interest		**137 960**	158 118
Net finance revenue (costs)	3	**6 159**	(717)
Profit before taxation		**144 119**	157 401
Taxation	4	**50 389**	51 686
Profit after taxation		**93 730**	105 715
Attributable to outside shareholders		**5 052**	5 763
Profit attributable to shareholders		**88 678**	99 952

Headline earnings per share (cents)	5	**370,6**	365,0
Continuing operations		**382,8**	370,5
Operation discontinued in 2004		**(12,2)**	(5,5)
Diluted headline earnings per share (cents)	5	**365,9**	357,4
Basic earnings per share (cents)	5	**302,8**	347,3
Diluted basic earnings per share (cents)	5	**298,6**	340,1

Reconciliation to headline earnings			
Profit attributable to shareholders		**88 678**	99 952
Add back capital items	2	**5 458**	5 079
Add back cost of closure of discontinued operation		**18 641**	
Tax effect of closure costs		**(4 221)**	
Headline earnings		**108 556**	105 031
Add back loss after taxation of discontinued operation		**3 555**	1 579
Headline earnings from continuing operations		**112 111**	106 610

Group balance sheet

at 30 November 2004

	Notes	2004 R000	2003 R000
Assets			
Non-current assets		**104 629**	115 242
Property, plant and equipment	6	**42 893**	44 244
Goodwill	7	**45 773**	55 589
Deferred taxation	8	**15 963**	15 409
Current assets		**779 405**	712 470
Inventories	9	**284 574**	319 793
Accounts receivable		**245 012**	238 509
Bank deposits and balances	17.6	**249 819**	154 168
Total assets		**884 034**	827 712
Equity and liabilities			
Equity		**536 825**	481 388
Shareholders' equity		**510 911**	457 857
Outside shareholders' interest	11	**25 914**	23 531
Non-current liabilities		**62 374**	70 749
Interest-bearing debt	12	**50 000**	50 198
Amounts due to vendors of businesses acquired	13	**12 374**	20 520
Deferred taxation	8		31
Current liabilities		**284 835**	275 575
Accounts payable		**259 539**	238 370
Taxation		**25 296**	37 205
Total equity and liabilities		**884 034**	827 712

Group cash flow statement

for the year ended 30 November 2004

	Notes	2004 R000	2003 R000
Cash retained from operating activities			
Operating profit		**162 059**	163 197
Depreciation and recoupments	1	**13 723**	13 636
Cash generated from trading		**175 782**	176 833
Decrease/(Increase) in working capital	15.1	**37 970**	(10 276)
Cash generated from normal operating activities		**213 752**	166 557
Loss on fair value of cash flow hedges		**(148)**	(1 074)
Net interest received/(paid)		**5 850**	(717)
Taxation paid		**(62 883)**	(56 511)
Cash flow from operations		**156 571**	108 255
Dividends paid	15.2	**(39 278)**	(33 605)
Cash retained from operating activities		**117 293**	74 650
Cash utilised in investment activities			
Investment in new businesses	15.3	**(3 756)**	(10 950)
Payments to vendors of businesses acquired		**(4 910)**	(5 994)
Cash flow on closure of discontinued operation	15.3	**(2 006)**	
Property, plant and equipment – additions		**(18 257)**	(15 455)
– disposals		**4 360**	2 973
Net cash invested		**(24 569)**	(29 426)
Net cash retained after investment		**92 724**	45 224
Cash flows from financing activities			
Decrease in long-term interest-bearing debt		**(198)**	(379)
Increase in shareholder funding	15.4	**3 125**	2 354
Cash flow from financing activities		**2 927**	1 975
Increase in cash and cash equivalents		**95 651**	47 199
Cash and cash equivalents at beginning of the year		**154 168**	106 969
Cash and cash equivalents at end of the year		**249 819**	154 168
Cash flow per share (cents)	15.5	**509**	358

Group statement of changes in equity

for the year ended 30 November 2004

R000	Share capital	Share premium	Special reserve account*	Retained income	Deferred on hedging instruments	Foreign exchange trans-lation reserve	Total equity
Balance at 30 November 2002	3 100	3 558	332	402 335		613	409 938
Attributable profit for the year				99 952			99 952
Translation of foreign entities						(3 642)	(3 642)
Loss in fair value of cash flow hedges					(1 074)		(1 074)
Issue of 513 067 shares	51	2 487					2 538
Dividends paid (note 14)				(31 149)			(31 149)
Balance at 30 November 2003	3 151	6 045	332	471 138	(1 074)	(3 029)	476 563
Less shares held by subsidiary company	(251)		(41)	(18 414)			(18 706)
Net balance at 30 November 2003	2 900	6 045	291	452 724	(1 074)	(3 029)	457 857
Balance at 30 November 2003	3 151	6 045	332	471 138	(1 074)	(3 029)	476 563
Attributable profit for the year				88 678			88 678
Translation of foreign entities						(1 992)	(1 992)
Loss in fair value of cash flow hedges					(148)		(148)
Issue of 434 829 shares	44	3 138					3 182
Dividends paid (note 14)				(36 666)			(36 666)
Balance at 30 November 2004	3 195	9 183	332	523 150	(1 222)	(5 021)	529 617
Less shares held by subsidiary company	(251)		(41)	(18 414)			(18 706)
Net balance at 30 November 2004	2 944	9 183	291	504 736	(1 222)	(5 021)	510 911

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

	2004 R000	2003 R000
1 Operating profit		
Operating profit is stated after taking into account the following items:		
Auditors' remuneration		
Audit fees – current year	**2 687**	2 314
Fees for other services	**265**	265
Cost of fair value hedges	**8 088**	13 512
Depreciation and recoupments	**13 723**	13 636
Depreciation (note 6)	**15 236**	14 805
Recoupment of depreciation on disposal of plant and equipment	**(1 513)**	(1 169)
Loss on translation of integrated foreign operations	**1 028**	8 715
Rentals paid on operating leases	**14 671**	14 984
Fixed property	**14 249**	14 548
Other	**422**	436
Staff costs	**307 314**	290 842
2 Capital items		
Amortisation of goodwill	**5 846**	5 079
Surplus on disposal of property	**(388)**	
	5 458	5 079
3 Net finance revenue (costs)		
Interest paid	**(8 646)**	(13 153)
Interest received	**14 805**	12 436
	6 159	(717)
4 Taxation		
4.1 Taxation comprises:		
South African normal taxation		
Current year	**49 964**	48 246
Prior years	**(1 271)**	342
Deferred normal taxation		
Current year	**(4 207)**	(2 093)
Prior years	**252**	(178)
Secondary tax on companies	**1 624**	517
Deferred secondary tax on companies	**3 370**	3 894
Foreign normal taxation – current year	**634**	921
Capital gains tax	**23**	37
Total taxation	**50 389**	51 686
4.2 Reconciliation of rate of taxation	**%**	%
Normal rate	**30,0**	30,0
Exempt income/foreign rate differential	**(0,4)**	(0,7)
Disallowable expenditure		2,2
Losses utilised in subsidiaries		(2,6)
Secondary tax on companies	**3,5**	2,8
Effective rate for current year before capital items	**33,1**	31,7
Capital items	**2,1**	1,0
Adjustment to prior year	**(0,2)**	0,1
Effective rate of taxation	**35,0**	32,8

5 *Earnings per share*

as set out in the income statement, divided by the weighted average of 29 288 976 shares (2003: 28 776 466) in issue during the year taking account of shares purchased by a subsidiary.

The calculation of diluted earnings per share is based on 29 702 299 shares (2003: 29 388 439) being the weighted shares in issue of 29 288 976 plus 413 323 deemed free issue shares. This assumes that all the shares granted in the share incentive scheme (note 10.5) at prices less than R24,65 (being the average market price for the current year) are taken up. 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 which could have been acquired with such proceeds at the average market price per share.

6 *Property, plant and equipment*

	Freehold land and buildings	Plant	Computers	Motor vehicles	Other assets	2004 Total R000	2003 Total R000
Cost							
Opening balance	17 055	58 304	34 076	24 934	17 724	**152 093**	141 233
Additions		2 935	4 830	6 671	3 821	**18 257**	15 455
Acquisitions		90				**90**	1 336
Currency adjustments			(17)		(8)	**(25)**	(361)
Disposals	(86)	(1 023)	(6 369)	(3 697)	(4 167)	**(15 342)**	(5 570)
Closing balance	16 969	60 306	32 520	27 908	17 370	**155 073**	152 093
Accumulated depreciation							
Opening balance	3 615	49 424	24 315	16 189	14 306	**107 849**	96 230
Depreciation for the year	279	3 593	5 277	4 792	1 295	**15 236**	14 805
Acquisitions							735
Currency adjustments			(13)	(2)	(7)	**(22)**	(155)
Disposals	(31)	(1 023)	(6 263)	(3 433)	(2 133)	**(12 883)**	(3 766)
Closing balance	3 863	51 994	23 316	17 546	13 461	**110 180**	107 849
Impairment	2 000					**2 000**	
Net book value	11 106	8 312	9 204	10 362	3 909	**42 893**	44 244
Estimated useful lives (years)	20	4 – 8	3 – 4	4	3		

Details of freehold land and buildings are kept at the registered office of the company. A copy thereof is available on written request.

	2004 R000	2003 R000
7 *Goodwill*		
Goodwill arising before 1 January 2001 at cost	**130 537**	130 537
Amount written off	**(130 537)**	(130 537)
Goodwill arising after 1 January 2001 at cost	**62 855**	66 825
Balance at beginning of year	**66 825**	53 052
Net adjustment to purchase consideration	**(6 207)**	(2 729)
Acquisitions during year	**2 237**	16 502
Accumulated amortisation	**(17 082)**	(11 236)
	45 773	55 589

Goodwill arising on acquisitions in 2002, 2003 and 2004 includes an element of purchase consideration which is based on the attainment of targeted levels of profitability and/or sales for the period ending April 2006. An adjustment to the goodwill has already been made as certain interim targets have not been met and some have been exceeded. Further adjustments may be made when the final purchase considerations are computed.

	2004 R000	2003 R000
8 Deferred taxation		
Temporary differences arising from:		
Accelerated capital allowances	**(500)**	(570)
– Balance at beginning of year	**(570)**	(1 052)
– Arising during the year	**70**	482
Secondary tax on companies	**5 481**	8 851
– Balance at beginning of year	**8 851**	12 745
– Utilised during the year	**(3 370)**	(3 894)
Other, principally doubtful debt provisions and leave pay accruals	**8 578**	7 097
– Balance at beginning of year	**7 097**	5 308
– Arising during the year	**1 481**	1 789
Calculated losses in subsidiaries		
– Arising during the year	**2 404**	
Net deferred taxation asset	**15 963**	15 378
9 Inventories		
Raw materials and components	**9 020**	25 515
Work in progress	**14 284**	19 827
Finished goods	**10 535**	22 280
Merchandise	**250 735**	252 171
	284 574	319 793
10 Shareholders' equity		
10.1 Authorised share capital		
40 000 000 (2003: 40 000 000) ordinary shares of 10 cents each	**4 000**	4 000
10.2 Issued share capital		
31 945 802 (2003: 31 510 973) ordinary shares	**3 195**	3 151
Less: 2 507 828 (2003: 2 507 828) ordinary shares held by subsidiary company – 8%	**(251)**	(251)
Net 29 437 974 (2003: 29 003 145) ordinary shares	**2 944**	2 900

10.3 Unissued shares
2 440 000 (2003: 2 875 000) unissued shares have been made available to the employee share incentive scheme (see note 10.5).

10.4 Retained income		
Income retained in:		
Company	**125 356**	138 387
Subsidiary companies	**379 380**	314 337
	504 736	452 724

10.5 Employee share incentive scheme	**Number of shares (000)**	
	2004	2003
Shares issued in terms of the scheme	**3 560**	3 125
Options granted and deferred delivery shares not yet taken up	**2 272**	1 511
Balance available*	**168**	1 364
Total specifically authorised to be issued in terms of the scheme	**6 000**	6 000

**The balance available i*
on which the option is granted

10 Shareholders' equity continued

10.5 Employee share incentive scheme 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)**	
	2004	2003	**2004**	2003
Rights to shares not taken up at beginning of year	**1 076c**	937c	**1 511**	2 084
Options granted	**2 460**		**1 310**	
Shares delivered	**732**	495	**(435)**	(513)
Forfeited on resignation			**(114)**	(60)
Rights to shares not taken up at end of year which are exercisable between December 2004 and March 2014	**1 925c**	1 076c	**2 272**	1 511

**See page 28 for details of directors' interest in the share incentive scheme*

	2004 R000	2003 R000
11 Outside shareholders' interest		
Share capital and reserves	**25 532**	23 092
Unsecured loans, interest free	**382**	439
	25 914	23 531
12 Interest-bearing debt		
Long-term borrowings comprise:		
12.1 Unsecured 4-year loan. Interest which is charged at variable rates (currently 9.4%) is payable up to six-monthly in arrears. Capital is repayable in December 2006	**50 000**	50 000
12.2 Finance leases secured by capitalised leased assets		198
	50 000	50 198

13 Amounts due to vendors of businesses acquired

Represents the estimated amounts due to four groups of vendors of businesses acquired in 2002, 2003 and 2004. The amount finally payable is subject to adjustment based on earnings or sales of the businesses for periods up to April 2006. Any adjustment to the estimated amount will be debited or credited to goodwill.

14 Dividends

	2004 R000	2003 R000
14.1 Ordinary dividends		
Dividend number 33 of 90 cents per share declared on 22 January 2004	**28 638**	23 789
The record date was 19 March 2004 and the dividend was paid on 23 March 2004		
Dividend number 34 of 35 cents per share declared on 30 June 2004	**11 163**	10 069
The record date was 13 August 2004 and the dividend was paid on 16 August 2004		
Dividend paid to subsidiary company	**(3 135)**	(2 709)
	36 666	31 149

14.2 On 27 January 2005 the directors declared dividend number 35 of 93 cents per share. The record date will be 18 March 2005 and the dividend will be paid on 22 March 2005.

		2004 R000	2003 R000
15 Notes to cash flow statement			
15.1 Decrease/(Increase) in working capital			
Decrease/(Increase) in inventories		**32 020**	(6 902)
(Increase)/Decrease in accounts receivable		**(3 128)**	17 574
Increase/(Decrease) in accounts payable		**9 335**	(14 779)
Translation gain on working capital in foreign entities		**(257)**	(6 169)
		37 970	(10 276)
15.2 Dividends			
To Hudaco shareholders		**(36 666)**	(31 149)
To outside shareholders in subsidiaries		**(2 612)**	(2 456)
		(39 278)	(33 605)
15.3 Investment in new businesses/closure	**Closure**	**Acquisition**	Acquisition
Property, plant and equipment	**2 000**	**(90)**	(601)
Inventories	**5 279**	**(2 080)**	(4 683)
Accounts receivable		**(3 375)**	(5 196)
Accounts payable	**9 356**	**2 478**	3 224
Net operating assets	**16 635**	**(3 067)**	(7 256)
Net borrowings acquired		**1 804**	251
Cost of closure	**(18 641)**		
Goodwill paid		**(2 237)**	(16 502)
Total consideration	**(2 006)**	**(3 500)**	(23 507)
Amounts due to vendors in 2005 – 2006		**1 548**	12 808
Net borrowings		**(1 804)**	(251)
Net cash flow on acquisitions and closure	**(2 006)**	**(3 756)**	(10 950)
15.4 Increase in shareholder funding			
Issue of Hudaco shares		**3 182**	2 538
Outside shareholder loans decreased		**(57)**	(184)
		3 125	2 354
15.5 Cash flow per share			
Cash flow from operations		**156 571**	108 255
Outside shareholder participation		**(8 195)**	(5 484)
Cash flow from operations attributable to ordinary shareholders		**148 376**	102 771
Cash flow per share (cents)		**509**	358
16 Commitments			
Capital expenditure budgeted for the following year			
Already contracted for		**2 274**	123
Not yet contracted for		**11 839**	22 321
Total capital expenditure which will be financed by net cash flow from operations and the utilisation of cash		**14 113**	22 444
At the balance sheet date the group had outstanding commitments under operating leases in respect of fixed properties which fall due as follows:			
Within one year		**14 212**	13 992
In second to fifth years		**18 604**	19 329
After five years		**1 070**	452
		33 886	33 773

17 Financial risk management

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

17.1 Treasury risk management

Hudaco's central treasury is responsible for the procurement of all bank funding, the investment of cash and the management of

are reviewed at quarterly meetings of the Board.

17.2 Foreign currency management

forwa

a portion (determined from time to time and generally between 20% and 50%) of orders placed not yet shipped. Order lead times vary between a few days and nine months. The objective is to have forward cover in place well before goods are shipped.

Cash flow hedges – At 30 November 2004 the group had entered into the following forward exchange contracts relating to forecast transactions, i.e. orders placed on supplies not yet shipped.
These contracts will be utilised for settlement of shipments received during the next two months:

	Year-end spot rate	Foreign amount 000	Contract rate*	Rand equivalent R000
Japanese yen	17,73	129 737	16,83	7 708
US dollar	5,81	1 926	6,06	11 676
Pounds sterling	10,98	316	11,38	3 597
Euro	7,71	1 001	7,92	7 923
Other				5
Total cost of contracts				30 909
Fair value – Rand equivalent of the above contracts at year-end spot rates				29 687
Loss recognised directly in shareholders equity – see page 33.				1 222

**The contract rate discounted to 30 November 2004 based on the forward points ruling at year-end – which approximates 5% pa*

17.3 Interest rate management

The group uses bank finance to purchase trading stock and has been reluctant to fix interest rates for extended periods on borrowings which finance working capital. Total borrowings amount to R50 million (note 12) and are subject to variable interest rates.

17.4 Credit risk management

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

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

rather than yield is the overriding consideration.

	2004 **R000**	2003 R000
17 Financial risk management continued		
17.5 Liquidity management risk		
The group manages liquidity risk by monitoring forecast cash flows and ensuring that adequate unutilised borrowing facilities are maintained.		
There is no restriction on borrowing powers in terms of the articles of association and at 30 November 2004 the group's banking facilities substantially exceeded its forecast requirements for the forthcoming year.		
17.6 Fair value of financial instruments		
The loss arising on the fair value adjustment on all forward exchange contracts at 30 November 2004 is set out below:		
• cash flow hedges (note 17.2)	**1 222**	1 074
• fair value hedges (R148 million)	**5 825**	9 149
	7 047	10 223

As this amount is due to the group's bankers it has been set-off against bank deposits and balances in the balance sheet.
The book value of all non-derivative financial instruments approximate their fair value at 30 November 2004.

18 Retirement benefits

pension or provident plans which are independent entities subject to the Pension Funds Act, 1956. Contributions to retirement funding during the year amounted to R12 119 027 (2003: R11 594 739). 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.

As they are defined contribution schemes they were exempt from regular actuarial valuations as no actuarial shortfall was anticipated. This exemption has fallen away and all the funds now require an actuarial valuation as part of their surplus apportionment exercise in terms of the Pension Fund Act. Valuations are required every three years thereafter.

The group's primary fund has completed its surplus apportionment exercise using a valuation date of 30 June 2002, which will

their surplus apportionment. The principal officer of the group's three main funds has advised that he is not aware of any material improper use of surpluses, which may have to be refunded by the employer, but this is still subject to the completion of a thorough and independent review during the surplus apportionment exercise.

The group has undertaken to make limited assistance to fund post retirement medical costs for some current and future pensioners. This liability is fully provided for in respect of current pensioners, whilst it is not material in respect of future pensioners.

19 Contingent liability

In 1991 one of the group's retirement funds converted from a defined benefit to a defined contribution fund and adopted a new set of rules. The then administrators and underwriters advised that the new rules authorised the employer to continue with the contribution holiday, which approximated R2,5m per annum between 1992 and 2001. The Financial Services Board (FSB) recently advised that in its opinion the new rules did not allow the employer contribution holiday. The fund trustees, the employer and the administrators at that time have agreed to take the FSB decision on review. As the outcome of this review is uncertain, this matter has been treated as a contingent liability. The employer has numerous remedies available to recover any refund that may have to be made to the fund should the review be unsuccessful.

20 Related party transactions

affiliates, in the ordinary course of business.

In the main, these transactions relate to property leases and financial services. All such transactions have been conducted on a market-related and arm's-length basis.

	Notes	2004 R000	2003 R000
Hudaco Industries Limited			
Balance sheet			
at 30 November 2004			
Assets			
Non-current assets			
Interest in subsidiary companies	21.1	**137 992**	148 065
Current assets		**331**	334
Accounts receivable and taxation		**324**	327
Bank balances		**7**	7
Total assets		**138 323**	148 399
Equity and liabilities			
Shareholders' equity		**138 066**	147 915
Current liabilities			
Accounts payable		**257**	484
Total equity and liabilities		**138 323**	148 399

Income statement
for the year ended 30 November 2004

	Notes	2004 R000	2003 R000
Dividends received from subsidiaries		**27 500**	35 000
Interest received – principally from subsidiaries		**157**	926
Operating costs	21.2	**(815)**	(696)
Profit before taxation		**26 842**	35 230
Taxation – South African normal tax		**72**	245
Profit after taxation		**26 770**	34 985

Statement of changes in equity
for the year ended 30 November 2004

R000	Share capital	Share premium	Special reserve account*	Retained income	Total equity
Balance at 30 November 2002	3 100	3 558	332	137 260	144 250
Attributable profit for the year				34 985	34 985
Issue of 513 067 shares	51	2 487			2 538
Dividends to shareholders				(31 149)	(31 149)
Dividends to subsidiary company				(2 709)	(2 709)
Balance at 30 November 2003	3 151	6 045	332	138 387	147 915
Attributable profit for the year				26 770	26 770
Issue of 434 829 shares	44	3 138			3 182
Dividends to shareholders				(36 666)	(36 666)
Dividends to subsidiary company				(3 135)	(3 135)
Balance at 30 November 2004	3 195	9 183	332	125 356	138 066

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

	2004 R000	2003 R000
Cash flow statement		
for the year ended 30 November 2004		
Cash generated from operating activities		
Dividends received	**27 500**	35 000
Operating costs paid	**(815)**	(696)
Increase in working capital	**(227)**	(43)
Cash generated from operating activities	**26 458**	34 261
Finance revenue	**157**	926
Taxation paid	**(69)**	(172)
Cash flow from operations	**26 546**	35 015
Dividends	**(39 801)**	(33 858)
Net cash (applied)/retained	**(13 255)**	1 157
Cash generated from/(applied to) investment activities		
Decrease/(Increase) in loans to subsidiary companies	**10 073**	(3 757)
Net cash applied	**(3 182)**	(2 600)
Cash flow from financing activities		
Decrease in bank balance		62
Increase in shareholder funding	**3 182**	2 538
Net financing raised	**3 182**	2 600

21 Notes to the company financial statements

	2004 R000	2003 R000
21.1 Interest in subsidiary companies		
Shares at cost less amounts written off	**93 647**	93 647
Net loans to subsidiaries	**44 345**	54 418
Loans to subsidiaries	**44 347**	54 420
Loans from subsidiaries	**(2)**	(2)
	137 992	148 065

These loans are unsecured with no fixed terms of repayment. R50 million is interest free and interest is charged on the balance at variable rates.

	2004 R000	2003 R000
21.2 Operating costs		
Operating costs are stated after taking into account		
Auditors' remuneration for the current year	**65**	60
21.3 Contingent liability		
Guarantee in respect of specific long-term banking facilities of a subsidiary	**52 000**	52 000

The company has guaranteed the banking facilities of all wholly owned South African based subsidiaries.
The maximum exposure in this regard is approximately R400 million and the exposure is nil at the year end.

21.4 Directors' emoluments

2004	For services as director R000	Fixed remu-neration R000	Retirement fund con-tributions R000	Other benefits R000	Performance related remuneration R000	Compen-sation for loss of office R000	Total remu-neration R000	Share incentive scheme gains See note* R000
		Paid by subsidiaries for managerial services						
Non-executive directors	362						**362**	
PL Campbell	150						**150**	
JB Gibbon	85						**85**	
PG Joubert	67						**67**	
YKN Molefi	60						**60**	
Executive directors		3 622	438	483	1 316		**5 859**	
SJ Connelly		1 680	199	184	525		**2 588**	199
GE Gardiner		900	111	88	479		**1 578**	88
MS Jolly†		137	18	62	27		**244**	
PM Poole		905	110	149	285		**1 449**	132
Total 2004	362	3 622	438	483	1 316		**6 221**	419
2003								
Non-executive directors	325						325	
PL Campbell	140						140	
JB Gibbon	75						75	
PG Joubert	60						60	
YKN Molefi	50						50	
Executive directors		3 848	465	527	2 235	268	7 343	425
SJ Connelly		1 549	183	190	1 060		2 982	82
GE Gardiner		828	102	84	544		1 558	36
MS Jolly†		264	34	64	62		424	
A Keschner**		378	45	53		268	744	252
PM Poole		829	101	136	569		1 635	55
Total 2003	325	3 848	465	527	2 235	268	7 668	425

Note

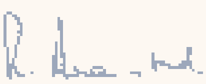
****This reflects unrealised gains available to directors which arose during the year in terms of the share incentive scheme, being the difference between the strike price and the market price on the date the directors were first entitled to take delivery of shares acquired in terms of the scheme.*

Full details of the directors' entitlements in the share incentive scheme are set out in the directors' report. (See page 27.)

*†Not employed full time   **Resigned 3 July 2003.*

Declaration by secretary

I hereby certify that the Company has lodged, with the Registrar of Companies, all such returns as are required of a public company, in terms of the Companies Act, No 61 of 1973, as amended, and that all such returns are true, correct and up to date.



RGL Arnestad
Secretary
27 January 2005

Segment analysis

	Group		Head office and intergroup eliminations		Bearings and transmission products		Powered products		Security equipment		Discontinued operations	
Rmillion	**2004**	2003	**2004**	2003	**2004**	2003	**2004**	2003	**2004**	2003	**2004**	2003
Income statement												
Turnover	**1 448**	1 477	**(2)**	(6)	**791**	828	**350**	325	**230**	233	**79**	97
EBITDA	**175**	177	**(6)**	(4)	**103**	105	**61**	49	**19**	23	**(2)**	4
Depreciation less recoupments	**13**	14			**8**	7	**1**	1	**1**	2	**3**	4
Operating profit	**162**	163	**(6)**	(4)	**95**	98	**60**	48	**18**	21	**(5)**	0
Cost of closure of discontinued operation	**19**										**19**	
Capital items	**5**	5			**3**	2			**2**	3		
Profit before interest	**138**	158	**(6)**	(4)	**92**	96	**60**	48	**16**	18	**(24)**	0
Balance sheet												
Property, plant and equipment	**43**	44	**1**		**27**	25	**5**	5	**3**	3	**7**	11
Goodwill	**46**	56			**22**	24			**24**	32		
Deferred taxation – net	**16**	15	**7**	10	**3**	2	**2**	2		1	**4**	
Inventories	**285**	320			**178**	173	**66**	74	**34**	38	**7**	35
Accounts receivable	**245**	239			**135**	137	**51**	51	**39**	38	**20**	13
Accounts payable	**(260)**	(238)	**(13)**	(10)	**(125)**	(113)	**(73)**	(69)	**(29)**	(33)	**(20)**	(13)
Taxation	**(25)**	(38)		(10)	**(18)**	(17)	**(8)**	(7)		(4)	**1**	
Net operating assets	**350**	398	**(5)**	(10)	**222**	231	**43**	56	**71**	75	**19**	46
Additional information												
Average net operating assets	**391**	424	**(26)**	(14)	**234**	236	**63**	69	**78**	89	**42**	44
Capital expenditure	**18**	15			**12**	9	**1**	2	**2**	1	**3**	3
Operating profit margin (%)	**11,2**	11,0			**12,0**	11,8	**17,1**	14,8	**7,8**	9,0		
Return on average net operating assets (%)	**41,4**	38,5			**40,6**	41,5	**95,2**	69,6	**23,1**	23,6		
Number of employees	**2 054**	2 081	**25**	25	**1 391**	1 303	**276**	283	**152**	142	**210**	328

Principal subsidiaries

at 30 November 2004

	Issued share capital 2004 R unless indicated	Group's effective interest 2004 %	Group's effective interest 2003 %	Interest of holding company: Book value of shares 2004 R000	Book value of shares 2003 R000	Loans owing by/(to) 2004 R000	Loans owing by/(to) 2003 R000
1 Subsidiaries							
Hudaco Trading Ltd	**26 160**	**100**	100	**48 158**	48 158	**44 347**	54 420
Abes Technoseal *		**100**	100				
Angus Hawken *		**100**	100				
Bearings International *		**100**	100				
Belting Supply Services *		**100**	100				
Bosworth *		**90**	90				
Ernest Lowe *		**100**	100				
Rutherford *		**100**	100				
Roller Chain Opti *		**100**	100				
Vivian Regina *		**100**	100				
Subsidiaries of Hudaco Trading Ltd							
Hudaco Transmission (Pty) Ltd	**789 032**	**100**	100				
BEP Bestobell *		**100**	100				
Bauer Geared Motors *		**100**	100				
Varispeed *		**100**	100				
DD Power Holdings (Pty) Ltd	**255 000**	**70**	70				
DD Power (Pty) Ltd	**7 450 000**	**70**	70				
Elvey Group Ltd	**921 586**	**100**	100				
Elvey Security Technologies (Pty) Ltd	**100**	**100**	100				
Quadrant Investments Ltd (Guernsey)	**$7 424**	**100**	100	**1 372**	1 372		
Subsidiaries of Quadrant Investments Ltd							
Elvey Group UK Ltd	**£3 000**	**100**	100				
Smithford Company Ltd (Guernsey)	**£1 312**	**100**	100				
Valhold Ltd	**959 841**	**100**	100	**37 692**	37 692		
Subsidiaries of Valhold Ltd							
Mather & Platt (Pty) Ltd	**2 650 004**	**100**	100				
Benmacor *		**80**	80				
Hypower Pumps *		**80**	80				
Hudaco Automotive Products (Pty) Ltd	**57 008**	**100**	100				
Hudaco Friction *		**100**	100				
PHC Clutch *		**100**	100				
Valard Bearings *		**100**	100				
Valard Ltd	**874 149**	**100**	100	**6 423**	6 423		
Other				**2**	2	**(2)**	(2)
Interest in subsidiaries				**93 647**	93 647	**44 345**	54 418

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

3 The attributable interest of the holding company in the aggregate profits and losses after taxation of the subsidiaries is:ˆ Profits R102,0 million (2003: R101,6 million); Losses R12,6 million (2003: R1,6 million).

**Denotes an operating division*

Shareholder information

at 30 November 2004

Shareholder analysis	Number of shares (000)	% issued shares	Number of share-holders
Portfolio size			
1 – 1 000	384	1,3	948
1 001 – 5 000	895	3,0	347
5 001 – 10 000	571	1,9	73
10 001 – 100 000	4 430	15,0	131
Over 100 000	23 158	78,8	47
Total**	29 438	100,0	1 546
Category			
Individuals	3 317	11,4	1 281
Financial institutions and pension funds	24 531	83,3	154
Banks and nominee companies	869	2,9	13
Other corporate bodies	721	2,4	98
Total**	29 438	100,0	1 546
Shareholder spread*			
Public	22 642	76,9	1 528
Non-public	6 796	23,1	18
Directors of the company and its subsidiaries	436	1,5	10
Associates of the above	89	0,3	7
Shareholders with an interest of 10% or more in the company	6 271	21,3	1
Total**	29 438	100,0	1 546
Major shareholders			
Old Mutual†	10 147	34,5	
Investec†	3 520	12,0	
Rand Merchant Bank†	3 266	11,1	
Standard Bank/Liberty Life†	2 180	7,4	
Directors* – see page 27	344	1,2	
Total	19 457	66,2	

** A list of the shareholdings of senior management is available, on request, from the secretary*

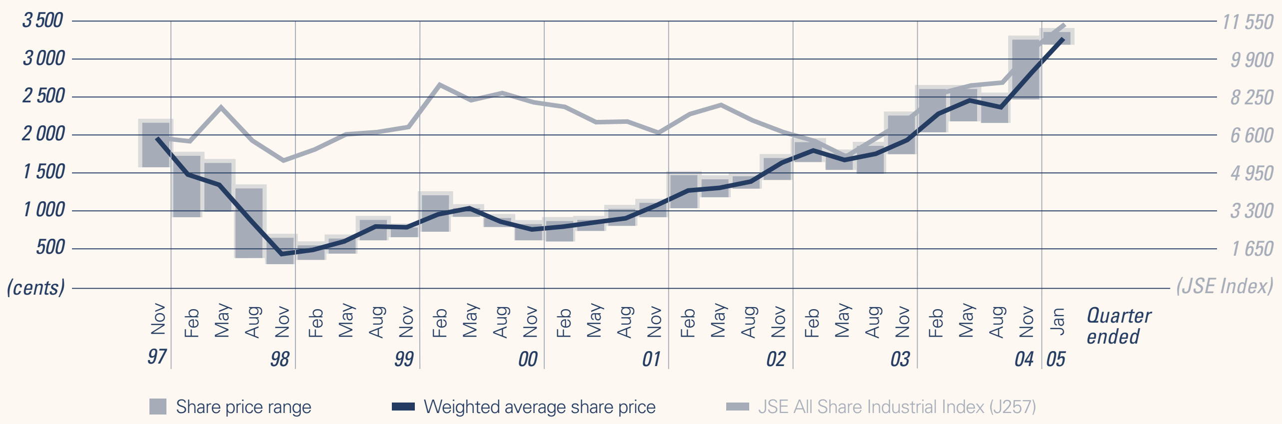
***Excludes 2 507 828 shares repurchased by a subsidiary company*

† Includes assets managed on behalf of specific clients

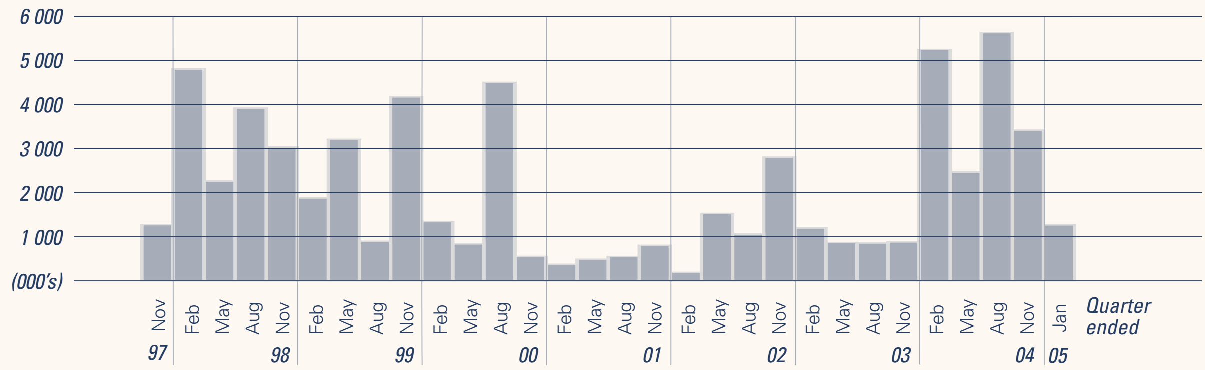
Share information

for the year ended 30 November 2004

Share price history



Volume traded on JSE

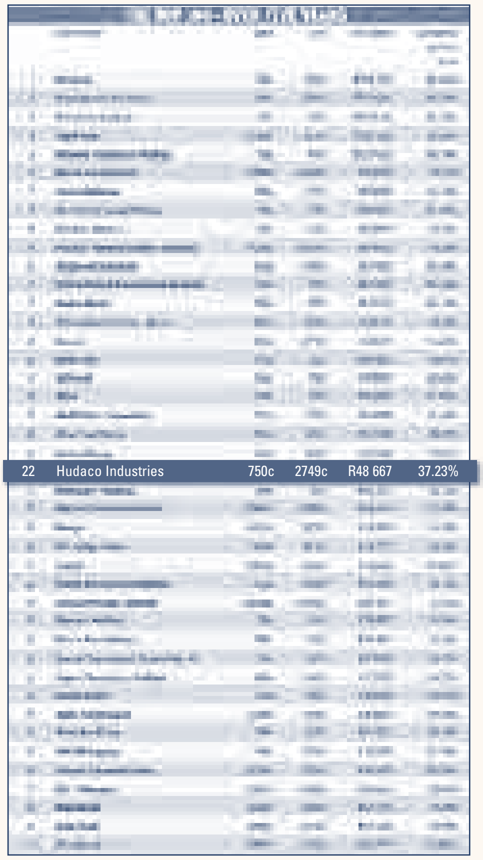


The JSE Securities Exchange SA statistics at 30 November 2004

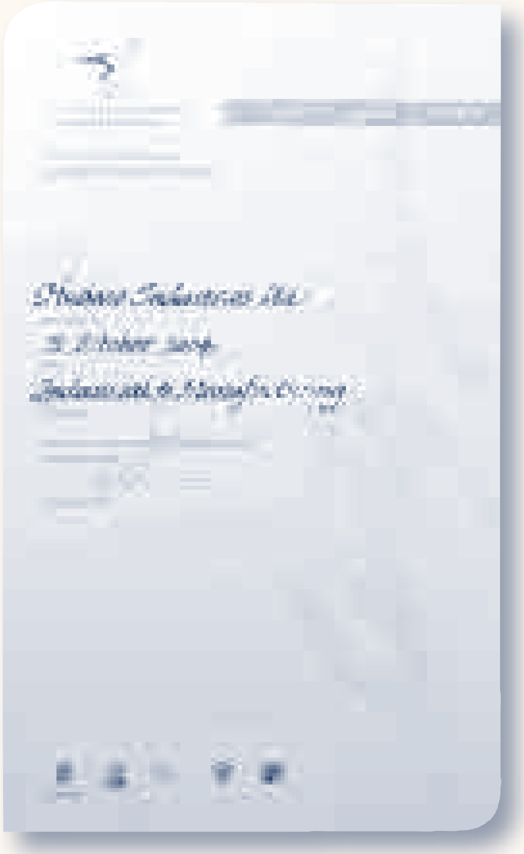
The following table sets out statistics of the JSE Securities Exchange SA	**2004**	2003	2002	2001	2000	1999	1998
Market price (cents)	**3 290**	2 300	1 740	1 105	700	800	551
NAV per share (cents)*	**1 736**	1 579	1 390	1 187	1 012	883	811
Number of shares in issue (000)*	**29 438**	29 003	28 490	28 019	27 865	30 157	29 811
Market capitalisation (Rm)*	**968**	667	496	310	195	241	164
Price/earnings ratio (times)	**8,6**	6,4	6,6	6,3	4,7	6,0	2,9
All Share Industrial Index PE ratio	**13,4**	12,6	11,4	13,4	14,9	15,9	11,3
Dividend yield (%)	**3,8**	4,7	4,7	5,2	6,3	7,9	16,1
All Share Industrial Index dividend yield (%)	**2,1**	2,5	2,5	1,9	1,7	1,7	2,2
Annual trade in Hudaco shares							
Number of transactions recorded	**3 076**	992	425	307	226	634	925
Volume of shares traded (000)	**16 744**	3 793	5 572	2 215	7 268	10 143	14 001
% of issued shares traded*	**57**	13	18	7	24	34	47
Value of shares traded (R000)	**412 704**	68 566	83 765	21 034	65 497	70 007	151 342

*Excludes 2 507 828 shares repurchased by a subsidiary company

Top 100 Companies
Business Times



22	Hudaco Industries	750c	2749c	R48 667	37.23%



Southern African Annual Report Award

The Southern African Institute of Chartered Secretaries and Administrators awarded Hudaco a merit certificate for the 2003 annual report.

Moneyweb/Deloitte Good Governance Awards

Hudaco was a finalist in the Ethics and Integrity category of The Deloitte Good Governance Awards during 2004. This award highlights and rewards best practices by South African listed companies.

Value-added service

In October 2001 Sasol awarded Bearings International an exclusive three year contract for the supply of some 4 000 line items.

The contract called for:

- high service levels
- strict pricing
- consumption reduction targets

To achieve these objectives Bearing International instituted a programme that included:

- artisan training;
- root cause failure analysis of every failed bearing
- detailed inventory analysis
- preventive measures to prolong the life expectancy of bearings
- opening two new branches to improve service delivery
- outright purchase of excess stock

Bearings International was incentivised to achieve these goals and in recognition of the value-added service provided, Sasol extended the contract for a further three years and paid a substantial cash incentive.

Hudaco

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 twentieth annual general meeting of shareholders of Hudaco Industries Limited will be held at Hudaco Park, 190 Barbara Road, Elandsfontein, Gauteng at 11:00 on Thursday 17 March 2005, for the following purposes:

1 To receive and adopt the annual financial statements for the year ended 30 November 2004.
2 To elect directors in place of the following who retire by rotation in terms of the company's articles of association. The retiring directors are eligible and offer themselves for re-election.
   2.1 G E Gardiner
   2.2 Y K N Molefi
   2.3 P M Poole
   A brief CV giving details of directors standing for re-election can be found on pages 22 and 23.
3 To ratify the appointment of any director to the board between the date of this notice and the annual general meeting as required in terms of the company's articles of association.
4 To place unissued shares, other than those held in reserve for the share incentive scheme, not exceeding 10% in number of the issued share capital of the company at the date of this meeting, under the control of the directors until the next annual general meeting, subject to the provisions of the Companies Act (Act 61 of 1973, as amended), the articles of association of the Company and requirements of the JSE Securities Exchange SA ("JSE").

Special business

Special resolution

5 To consider and, if deemed fit, to pass with or without modification, the following special resolution:

"RESOLVED THAT, subject to the Listings Requirements of the JSE, the directors of the Company be and are hereby authorised in their discretion to procure that the Company or subsidiaries of the Company acquire by purchase on the JSE ordinary shares issued by the Company provided that:

- the number of ordinary shares acquired in any one financial year shall not exceed 20% of the ordinary shares in issue at the date on which this resolution is passed;
- this authority shall lapse on the earlier of the date of the next annual general meeting of the company or the date 15 months after the date on which this resolution is passed;
- the price paid per ordinary share may not be greater than 10% above the weighted average of the market value of the ordinary shares for the 5 business days immediately preceding the date on which a purchase is made;
- the number of shares purchased by subsidiaries of the Company shall not exceed 10% in the aggregate of the number of issued shares in the company at the relevant times;
- the repurchase of securities will be effected through the main order book operated by the JSE trading system and done without any prior understanding or arrangement between the Company and the counter party;
- after such repurchase the Company will still comply with paragraphs 3.37 to 3.41 of the JSE Listings Requirements concerning shareholder spread requirements;
- the Company or its subsidiaries will not repurchase securities during a prohibited period as defined in paragraph 3.67 of the JSE Listings Requirements;
- when the Company has cumulatively repurchased 3% of the initial number of the relevant class of securities, and for each 3% in aggregate of the initial number of that class acquired thereafter, an announcement will be made;
- the Company only appoints one agent to effect any repurchase(s) on its behalf;
- the Company and its subsidiaries will be able to pay their debts in the ordinary course of business for a period of 12 months after the date of this notice;
- recognised and measured in accordance with the accounting policies used in the latest audited annual group financial statements, the assets of the Company and its subsidiaries will exceed the liabilities of the company and its subsidiaries for a period of 12 months after the date of this notice;
- the ordinary capital and reserves of the Company and its subsidiaries will be adequate for the purposes of the business of the company and its subsidiaries for a period of 12 months after the date of this notice; and
- the working capital of the Company and its subsidiaries will be adequate for the purposes of the business of the company and its subsidiaries for a period of 12 months after the date of this notice".

Reason and effect

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

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

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

25 of the Listings Requirements of the JSE.

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

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

– directors and management – page 22 and 23
– major shareholders of Hudaco – page 46
– directors' interests in securities – page 27; and
– share capital of the company – page 46.

Material changes

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

Litigation statement

The directors, whose names are given on pages 22 and 23 of the annual report of which this notice forms part, are not aware of any legal or arbitration proceedings, including proceedings that are pending or threatened of which the company is aware except for the contingent liability noted in note 19 that may have or have in the previous 12 months had a material effect on the group's financial position.

Directors' responsibility statement

The directors, whose names are given on pages 22 and 23 of the annual report, collectively and individually, accept full responsibility for the accuracy of the information pertaining to the Special Resolution and certify that to the best of their knowledge and belief there are no facts that have been omitted which would make any statement false or misleading, and that all reasonable enquiries to ascertain such facts have been made and that this resolution contains all such information.

Voting and proxies

In order to more effectively record the votes 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 only to be completed by those shareholders who are:

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

Members who have dematerialised their shares through a Central Securities Depositary Participant ("CSDP") or broker and wish to attend the annual general meeting, must instruct their CSDP or broker to provide them with a Letter of Representation, or they must provide the CSDP or broker with their voting instruction in terms of the relevant custody agreement/mandate entered into between them and the CSDP or broker.

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

By order of the board.

RGL Arnestad
Company Secretary

27 January 2005

Shareholders' diary

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

Hudaco Industries Limited

Company secretary
RGL Arnestad

Registered office and business address
Incorporated in the Republic of South Africa
Company registration number 1985/004617/06
Hudaco Park
190 Barbara Road
Elandsfontein 1406
Private Bag 13
Elandsfontein 1406
Tel (011) 345 8200
Fax (011) 392 2740
E-mail info@hudaco.co.za
Website www.hudaco.co.za

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

Group directory

Division	Business name	Nature of business	Address		
Bearings & transmission products	ABES Technoseal	Distributor of oil and hydraulic seals	Tunney Road Elandsfontein	Tel Fax E-mail	974 8331 974 1786 dallman@abes.co.za
	Angus Hawken	Manufacturer of oil seals	13 Bodirelo Mogwase	Tel Fax	(01455) 8 2756 (01455) 8 2425
	Bauer Geared Motors	Distributor of geared motors, frequency inverters and electric motors	72 Acacia Corner Barbara Road Primrose	Tel Fax E-mail	828 9715 822 4135 gbauer@global.co.za
	Bearings International and Roller Chain Opti	Distributor of bearings, seals and transmission products	190 Barbara Road Elandsfontein	Tel Fax E-mail	345 8000 974 7200 bearings@bearings.co.za
	Belting Supply Services	Distributor of power transmission and conveyor belting products and industrial hose	1 Guthrie Road Wadeville	Tel Fax E-mail	824 4504 824 3324 colin@belting.co.za
	BEP Bestobell	Distributor of fluid measurement and control products including valves, gaskets, insulation and instrumentation	9 Covora Street Jet Park	Tel Fax E-mail	281 9300 397 3100 enquiries@bepbestobell
	Bosworth	Manufacturer of conveyor drive pulleys	Cnr Vereeniging/ Juyn Roads, Alrode	Tel Fax E-mail	864 1643 908 5728 pulleys@iafrica.com
	Ernest Lowe	Manufacturer and distributor of hydraulic and pneumatic equipment	6 Skew Road Boksburg North	Tel Fax E-mail	898 6600 918 3974 corporate@elco.co.za
	Mather & Platt	Distributor of centrifugal, gear, chemical and submersible pumps	9 Covora Street Jet Park	Tel Fax E-mail	281 9370 397 3100 mp@mathplatt.co.za
	PHC Clutch	Distributor of clutch kits	Unit 6 Cnr Girder/Fred Droste Streets Droste Park	Tel Fax E-mail	624 2631 624 2370 rhineval@iafrica.com
	Valard Bearings	Manufacture and repair of white metal bearings	53 Kelly Road Jet Park	Tel Fax E-mail	397 3450 397 4202 valard@iafrica.com
	Varispeed	Specialist supplier of products that control, monitor and regulate the speed of standard AC motors	Unit 2 31 Indianapolis Street Kyalami Business Park Midrand	Tel Fax E-mail	466 0830 466 1007 drives@varispeed.co.za
Powered products	Deutz Dieselpower	Distributor of Deutz diesel engines and provider of after-market services	5 Tunney Road Elandsfontein	Tel Fax E-mail	923 0600 923 0611 info@deutz.co.za
	Rutherford	Distributor of power tools, outboard motors, survey equipment and rivets	77 Smits Street Industries West	Tel Fax E-mail	878 2600 873 1689 exesec@rutherford.co.za
Security equipment	Elvey Security Technologies	Distributor of intruder detection, closed-circuit television, access control and fibre-optic equipment	65 Julbert Road Benrose	Tel Fax E-mail	401 6700 401 6753 sales@elvey.co.za
	Elvey Security Technologies (UK)	Distributor of intruder detection, closed-circuit television and access control equipment	Unit 1, Wharton Street Nechells, Birmingham B7 5TR U.K.	Tel Fax E-mail	(0121) 326 6616 (0121) 327 1881 sales@elveysecurity.co.uk
Group head office	Hudaco Industries Hudaco Trading		190 Barbara Road Elandsfontein	Tel Fax E-mail Website	345 8200 392 2740 info@hudaco.co.za www.hudaco.co.za

**Area code 011 unless otherwise stated*

Executives

David Allman	Chief Executive		
Chris de Kock	Financial Director		
Jane Kyte	Director		
Hannes du Plessis	Manager – Mogwase		
Graham Dunford	Chief Executive		
Mark Oates	General Manager		
Graham Gardiner	Divisional Chief Executive	Danie Louw	Regional Sales Director
Tony Patten	Chief Executive	Alan Ross	Logistics Director
Brian Constancon	Financial Director	Ian Robertson	Bearings Director
Adrian Vorster	Transmission Director		
Colin Briggs	Chief Executive		
Mark Knight	Financial Director		
Piet Swanepoel	Director		
Andy Vermaak	Chief Executive		
Gavin Glass	Financial Director		
Alan Bell	Chief Executive		
Mark Tarboton	General Manager		
Douglas Salmon	Chief Executive	Jonina Fourie	Financial Director
Manny Vieira	Sales Director		
Peter Wagstaff	Chief Executive		
Danie Venter	Chief Executive		
Brian Sibanda	Financial Manager		
Jopie Oosthuizen	General Manager		
Ronnie King	Chief Executive		
Leon Coetzer	Chief Executive	Rowan Michelson	Divisional Head: Service
Burtie Roberts	Financial Director	Maurice Pringle	Divisional Head: Customer Support
Bob Cameron-Smith	Chief Executive	Bhoopendra Dulabh	Director
Les Trollip	Financial Director	Mick Spooner	Director: Marine
Jack Edery	Chief Executive	Dave Waywell	Operations Director
Bev Scott	Financial Director		
Jonathan Tyler	Chief Executive		
John Newey	Director		
Nigel Lloyd	Financial Director		
Stephen Connelly	Group Chief Executive	Cassie Lamprecht	Group Accountant
Mike Jolly	Portfolio Director	Moira Oosthuizen	Group Employee Benefits
Peter Poole	Group Financial Director	Andrew Wallis	Group Treasurer
Gilbert da Silva	CEO – C & T Division	Gary Walters	CEO Hudaco Friction
Richard Arnestad	Group Secretary	Peter Wilgenbus	Group Risk and Internal Audit

www.hudaco.co.za

Hudaco